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TRADE PERSPECTIVES BETWEEN LATIN AMERICA AND ASIA AND THE PACIFIC*

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ABSTRACT

This document provides an overview of trade relations between Asia and the Pacific and Latin America and explores the possibilities for expanding the modalities of economic relations between the two regions. The analysis covers 12 countries in Asia and Oceania and 11 members of the Latin American Integration Association (LAIA).

Chapter I begins with a short analysis of LAIA's trade performance in the 1990s, and of its relations with major trade partners outside the region. This is followed by an outline of the dynamics of trade flows between Latin America and Asia and the Pacific, focusing on the Latin American side. The chapter ends with a review of market-access mechanisms and the on-going process of liberalization in Latin America. Chapter II analyses the same trade relations from the perspective of Asian and Pacific countries. Chapter III presents some general data on the importance of intra-industrial trade in Asia and the Pacific and LAIA's trade, with a view to suggesting a possible path for future relations between the two regions. This is followed by a brief survey of the linkages between trade and foreign direct investment (FDI) in Chapter IV, and finally, a description is provided on the recent evolution of foreign direct investment in Latin America, indicating some options for increasing the presence of Asia and the Pacific.

The last part, Conclusions and Recommendations, emphasizes the broad opportunities that lie in the development of interregional economic linkages. Recommendations are made in four areas: 1) increasing information exchange, 2) economic and technical cooperation, 3) market access and business facilitation and 4) transport and institutional building.

INTRODUCTION

In the current decade the world economy has experienced a strengthening of the process of globalization. The creation of the World Trade Organization (WTO) has reinforced the international trade structure, and new forms of regional and subregional integration are being forged. These new factors create opportunities for increasing interchanges between all countries, since they tend to establish conditions for trade featuring less threat of protectionism and more transparency. However, the main trade challenge facing the developing world still rests in the access to markets for their products, together with product improvement through adding value and furthering the process of transformation. Achieving economic development requires access to goods, services, capital and technology to increase the complexity of the exportable supply and to enhance the benefits accrued by products which secure better terms of trade.

Asia and the Pacific and Latin America[1] share an important role in the world economy. Asia and the Pacific is considered to be the most dynamic area of the world. Its share of world gross domestic product (GDP) has been increasing steadily (see table 1), as has its participation in the international flow of goods and services. In 1995 Asia accounted for almost 24% of world merchandise exports (see figure 1). In 1995, 10 of the 12 Asian and Pacific countries here considered were among the world's 20 major importers and exporters of goods. In 1994, seven Asian and Pacific countries qualified among the world's 20 major exporters and importers of services.[2]

Latin America is intrinsically rich in natural resources, and it represents an emerging market for all categories of products. Nevertheless, the region's share of world GDP has fallen over the past decades (see table 1), and its participation in international trade remains stagnant (see figure 1). In 1995, only two member countries of the Latin American Integration Association (LAIA) were among the world's 20 major importers and exporters of merchandise and none was among the world's 20 major traders of services.[3] In that year, Latin America represented only 4% of the world's export flows. In the 1980s, the region suffered the negative effects of the debt crisis and protectionist policies. However, drastic changes have occurred during the current decade . Trade barriers have been cut down throughout the region, and sound macroeconomic policies promoting liberalization and privatization are being followed almost everywhere in the region.

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[1] The terms Latin America and LAIA (Latin American Integration Association) will be used throughout this document in reference to the following 11 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. Asia or Asia and the Pacific (ASPAC) refers to Australia, China, Hong Kong (China), Indonesia, Japan, Malaysia, New Zealand, the Philippines, the Republic of Korea, Singapore, the Chinese Province of Taiwan and Thailand.

[2] World Trade Organization (WTO) *Annual Report 1996*, Vol. 2, Geneva, 1996, tables I.6 and I.7.

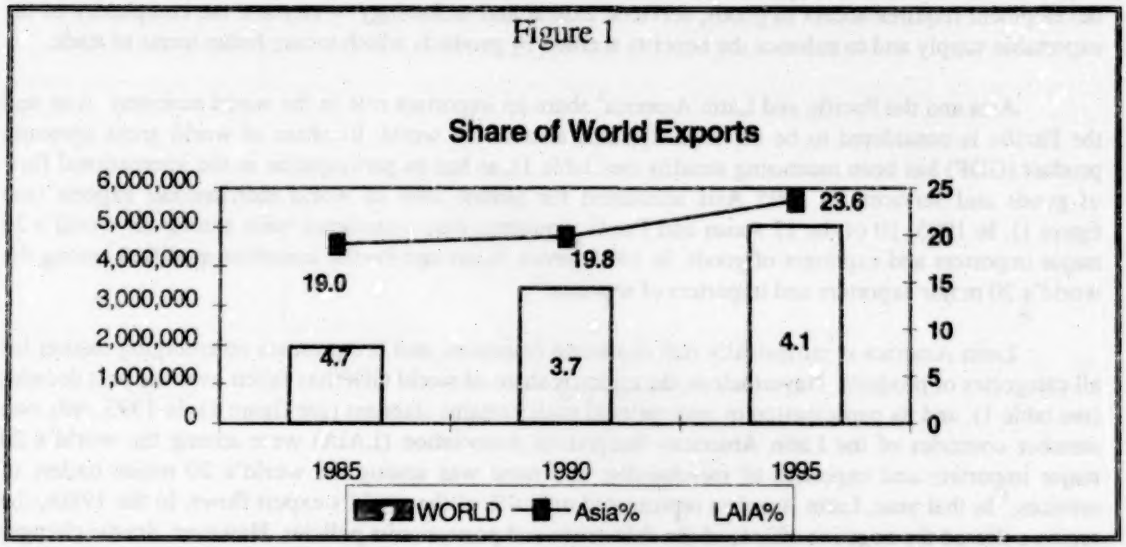
[3] Ibid.

Table 1
SHARE OF WORLD GDP

	1980	1994
Latin American Integration Association	6.4	5.9
Asia and the Pacific [a]	15.9	25.9
Rest of the world	77.6	68.2

Source: World Bank, *World Development Report, 1996*, Washington, D.C., 1996, table 12.
[a] Excludes the Chinese Province of Taiwan.

Figure 1



Source: World Trade Organization (WTO), *Annual Report, 1996*, Geneva, 1996.
Note: Excludes reexports from Hong Kong and Singapore.

Dynamic international flows of foreign direct investments (FDI) is an important characteristic of the new international order, with enormous influence in current economic relations. One particular aspect of FDI is the synergy that it generates with trade and economic development.

Global FDI flows reached a total of US$ 310 billion in 1995. Direct investment in developing countries reached US$ 99.7 billion in 1995, an increase of 14.5% over the previous year. Of this total, more than 65% went to East Asian countries. China received US$ 37.7 billion, and the four member countries of the Association of South-East Asian Nations (ASEAN)[4] received US$ 13.4 billion. In that same year, FDI flows to Latin America reached US$ 23 billion and those to Asia US$ 65 billion (see table 2). In any case, while Asia has managed to increase its share of global FDI flows, Latin America, also showed a positive increment compared to the beginning of the decade, even with the problem of the Mexican crisis. This reaffirms the confidence of the international community in the region, the faith that the process of reform is a permanent one and, fundamentally, that the region offers plenty of opportunities for mutual benefit.

Table 2

NET FOREIGN DIRECT INVESTMENT INFLOWS TO DEVELOPING COUNTRIES

1989-1995

(Millions of dollars)

	1989	1990	1991	1992	1993	1994	1995 [a]
World	194,518	201,488	153,712	162,220	200,757	217,057	310,693
Latin America	9,249	8,061	12,900	14,574	15,926	25.991	23,643
Asia [b]	14,168	18,302	20,691	25,607	44,832	50,178	65,000
Percentage of world total							
Latin America	4.75	4.00	8.39	8.98	7.93	11.97	7.61
Asia %	7.28	9.08	13.46	15.79	22.33	23.12	20.92

Source: ECLAC, on the basis of information from the International Monetary Fund (IMF) and national competent authorities.

[a] Estimated.

[b] Refers to Developing Asia in general.

[4] Indonesia, Malaysia, the Philippines and Thailand.

I. GENERAL OVERVIEW OF LAIA TRADE

During the 1990s Latin America has improved its commercial ties with most regions of the world. From 1990 to 1995 total exports increased from US$ 113 billion to US$ 204 billion. Total imports which stood at US$ 83 billion in 1990, reached US$ 205 billion in 1995. These values indicate an average annual increase of almost 20% for imports and 13% for exports (see table 3).

This scenario represents a drastic change from the 1980s when, due to the debt crisis, Latin America suffered from the slackening of its external trade, particularly imports. As can be seen clearly in table 3, Latin American imports stagnated in the period 1980-1990, while exports increased by only 3.5% annually. In the same period, the average yearly increase of world exports was 6%.

Although Latin America has increased its trade with most regions of the world, trade with Asia still occupies a smaller share of total trade than that with the United States, the European Union and Latin America itself. In the period 1990-1995, LAIA imports from Asia and the Pacific increased by 26% and its exports by almost 11% on an average annual basis. Exports to the European Union increased only 3.1%, and exports to the United States did so at a rate of almost 17% on an average annual basis.[5] This implies that there are still plenty of opportunities for Asia and Latin America to increase their commercial relations, exploiting the new international trade development.

Interregional relations should take into account the increasing relevance of intraregional trade. During this same period, Latin American intraregional trade flows were the most dynamic. In 1990, these flows represented only 15% of total imports and 11% of total exports, while in 1995 the share of intraregional trade in LAIA's trade flows stood at 17% in both directions. The annual average growth rate for the period was almost 24% for intraregional exports and about 23% for imports.

The next sections are based on Latin American trade statistics. They will give a brief overview of Latin American trade with Asia.

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[5] Because of the importance of its trade flow with the United States, Mexico is a particular case. If this country is excluded from LAIA trade statistics, the relevance of Asian and Pacific countries to Latin American exports in 1995 rises from 10% to 15%. Asia's share in LAIA imports also increases from 13% to 14% in that same year. Accordingly, excluding Mexico, the performance of LAIA exports to Asia and the Pacific increases from an annual average growth of 11% to 12% during the 1990s. On the other hand, when Mexico is excluded from LAIA's imports from Asia, the average annual rate of growth actually decreases from 26.2% to 25.8%.

Table 3

LAIA-LATIN AMERICAN INTEGRATION ASSOCIATION

(Millions of dollars)

Imports (C.I.F.)						
Year	**United States**	**European Union**	**Asia [a]**	**LAIA**	**Other**	**World**
1970	4,861	3,520	800	1,342	1,246	11,769
1980	30,435	17,535	7,713	10,361	17,200	83,244
1990	33,399	17,423	8,170	12,378	11,827	83,197
1995	88,139	38,614	26,111	34,614	17,503	204,981
Annual average growth rates						
1980-1990	0.9	-0.1	0.6	1.8	-3.7	-0.01
1990-1095	21.4	17.3	26.2	22.8	8.2	19.80
Share of total exports (percentage)						
Year	**United States**	**European Union**	**Asia [a]**	**LAIA**	**Other**	**World**
1970	41.3	29.9	6.8	11.4	10.6	100.0
1980	36.6	21.1	9.3	12.4	20.7	100.0
1990	40.1	20.9	9.8	14.9	14.2	100.0
1995	43.0	18.8	12.7	16.9	8.5	100.0

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

[a] Represents 12 countries of Asia and the Pacific.

Table 4

LAIA-LATIN AMERICAN INTEGRATION ASSOCIATION

(Millions of dollars)

Exports (F.O.B.)						
Year	**United States**	**European Union**	**Asia [a]**	**LAIA**	**Other**	**World**
1970	3,792	4,448	841	1,273	2276	12,632
1980	23,361	20,292	5,565	10,982	19,367	79,567
1990	44,165	27,193	12,459	12,302	16,575	112,694
1995	95,012	31,738	20,702	35,480	21,264	204,195
Annual average growth rates						
1980-1990	6.6	3.0	8.4	1.1	-1.5	3.5
1990-1995	16.6	3.1	10.7	23.6	5.1	12.6
Share of total exports (percentage)						
Year	**United States**	**European Union**	**Asia [a]**	**LAIA**	**Other**	**World**
1970	30.0	35.2	6.7	10.1	18.0	100.0
1980	29.4	25.5	7.0	13.8	24.3	100.0
1990	39.2	24.1	11.1	10.9	14.7	100.0
1995	46.5	15.5	10.1	17.4	10.4	100.0

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

[a] Represents 12 countries of Asia and the Pacific.

A. THE COMPOSITION OF LAIA TRADE FLOWS

One explanation for Asia and the Pacific's small share in Latin American trade flows may rest in its composition. The following tables present some details of Latin America imports from and exports to its major trade partners.[6]

Table 5
LATIN AMERICAN INTEGRATION ASSOCIATION (LAIA) COMPOSITION OF IMPORTS, BY MAIN COMMODITIES GROUPS
(*Percentages*)

Commodity	United States		European Union		Asia and the Pacific [a]	
	1990	1995	1990	1995	1990	1995
Food	11.2	6.5	7.7	5.7	13.4	3.9
Non-food agriculture	3.8	2.6	1.3	1.0	7.7	3.5
Metals and minerals	3.0	2.2	1.3	1.3	2.2	0.7
Fuels	4.9	2.8	1.1	1.9	8.3	3.2
Manufactures	77.2	85.9	88.6	90.1	68.4	88.7
Total trade	100	100	100	100	100	100

Commodity	Japan		LAIA countries		World	
	1990	1995	1990	1995	1990	1995
Food	0.3	0.1	22.4	21.2	10.9	8.6
Non-food agriculture	0.3	0.2	5.0	3.7	3.1	2.5
Metals and minerals	0.7	0.4	8.5	6.0	3.4	2.6
Fuels	0.8	0.5	15.2	12.0	12.0	5.9
Manufactures	97.9	98.8	48.8	57.1	70.6	80.5
Total trade	100	100	100	100	100	100

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

[a] Excluding Japan.

Table 5, for example, shows that the composition of LAIA imports from throughout the world has become more concentrated in manufactures, in all directions of trade. However, the relative share of manufactures in LAIA total imports from Asia (excluding Japan) has grown even further, from less than 70% in 1990 to almost 90% in 1995. This reflects both the increasing competitiveness of Asian and Pacific manufactures and the openness of the Latin American market to Asian exports.

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[6] It is advisable to read the tables with a cautionary view. After 1992, *maquila* trade data has been included in Mexico's trade with the United States, which has been translated into a sudden and significant increase in Latin American trade of manufactured products with the United States.

The analysis of LAIA exports to the world highlights the increasing importance of manufactures in total shipments abroad. In the five-year period covered in table 6, the share of manufactures in total exports to the world increased from less than 34% to almost 52%, while all other categories decreased their share of this total. Exports to the United States reflected this adjustment more pronouncedly.[7]

Table 6
LATIN AMERICAN INTEGRATION ASSOCIATION (LAIA)
COMPOSITION OF EXPORTS, BY MAIN COMMODITIES GROUPS
(Percentages)

Commodity	United States		European Union		Asia and the Pacific [a]	
	1990	1995	1990	1995	1990	1995
Food	16.3	10.1	35.2	41.0	20.2	28.1
Non-Food agriculture	1.9	2.1	5.0	7.3	8.4	10.2
Metals and minerals	5.6	3.7	20.2	17.3	18.4	22.2
Fuels	40.1	18.8	16.4	7.9	5.9	3.2
Manufactures	36.1	65.3	23.2	26.5	47.0	36.3
Total trade	100.0	100.0	100.0	100.0	100.0	100.0
Commodity	**Japan**		**LAIA countries**		**World**	
	1990	1995	1990	1995	1990	1995
Food	17.0	27.7	22.7	20.0	23.5	20.9
Non-food agriculture	4.9	7.2	5.0	3.2	3.6	3.8
Metals and minerals	42.6	42.0	8.0	6.1	12.3	9.1
Fuels	18.2	5.5	12.7	12.9	27.0	14.6
Manufactures	17.3	17.6	51.6	57.9	33.6	51.6
Total trade	100.0	100.0	100.0	100.0	100.0	100.0

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

[a] Excluding Japan.

The reverse trend can be observed in LAIA exports to Asia and the Pacific (excluding Japan). While on average, Latin America has managed to increase its exports of manufactures, Asia's share of these exports has declined and Japan's share has remained stagnant in relation to total exports. Shipments of food, non-food agricultural goods and metals and minerals have increased their share of total exports to this area of the world, reflecting the fact that Latin America has acquired comparative advantages in the exports of these products and indicating the potential of the Asian and Pacific market (see table 6). Exports to Japan are concentrated in metals and minerals. Exports of manufactures to the rest of Asia and the Pacific, although a declining trend, are still higher than LAIA exports of manufactures to the European Union.

Table 7 examines each partner's share in total imports from the world. The United States is the main source of LAIA imports for manufactures and non-food agricultural products. Intraregional imports dominate in the categories of food items, metals and minerals and fuels.

[7] Due to the inclusion of *maquila* products in Mexican trade statistics, shipments of manufactures to that country increased from 36% of total exports in 1990 to 65% in 1995.

Asia and the Pacific increased its share of LAIA imports of manufactures, although, Japan has decreased its share of total Latin American imports of these products. Japan's share of total Latin American imports has also diminished, whereas the other countries of Asia and the Pacific have more than doubled their participation. This implies that there has been a process of country diversification in this area.

Table 7

LATIN AMERICAN INTEGRATION ASSOCIATION (LAIA) REGIONAL SHARES OF IMPORTS (C.I.F.), BY LARGE COMMODITY GROUPS

(Percentages)

Commodity	United States		European Union		Asia and the Pacific [a]	
	1990	1995	1990	1995	1990	1995
Food	41.2	32.5	14.7	12.5	4.7	3.3
Non-food agriculture	49.3	45.4	8.8	7.6	9.7	10.0
Metals and minerals	35.2	36.5	8.2	9.5	2.6	1.9
Fuels	16.3	20.5	1.9	6.1	2.6	3.9
Manufactures	43.9	45.9	26.3	21.1	3.7	7.8
Total trade	40.1	43.0	20.9	18.8	3.8	7.1

Commodity	Japan		LAIA countries		World
	1990	1995	1990	1995	All years
Food	0.2	0.1	30.5	41.7	100.0
Non-food agriculture	0.5	0.4	24.4	25.0	100.0
Metals and minerals	1.2	0.9	37.7	39.5	100.0
Fuels	0.4	0.5	18.8	34.2	100.0
Manufactures	8.3	6.9	10.3	12.0	100.0
Total trade	6.0	5.6	14.9	16.9	100.0

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

[a] Excluding Japan.

Table 8 presents the composition of Latin American exports to the world's main regions. Japan and the rest of Asia and the Pacific are far behind the rest of the world as a destination for Latin American exports. Particularly in the case of manufactures, Japan and the rest of Asia and the Pacific present declining shares of total Latin American exports of these products. However, Asia and the Pacific have gained a noticeable importance for regional exports of metals and minerals and of non-food agricultural products. Asia's share in total exports of food items has almost doubled in the period, although it is still less than 10%. The United States is Latin America's main market, with significant participation in Latin American exports of manufactures, non-food agricultural products and metals and minerals.[8]

[8] Even though at the national level there are variations.

Table 8

LATIN AMERICAN INTEGRATION ASSOCIATION (LAIA) REGIONAL SHARES OF EXPORTS (F.O.B.), BY LARGE COMMODITY GROUPS

(*Percentages*)

Commodity	United States		European Union		Asia and the Pacific [a]	
	1990	1995	1990	1995	1990	1995
Food	27.2	22.5	36.2	30.6	4.3	8.0
Non-food agriculture	21.3	25.7	33.9	29.3	11.7	15.7
Metals and minerals	17.7	18.9	39.7	29.4	7.5	14.4
Fuels	58.1	59.8	14.6	8.4	1.1	1.3
Manufactures	42.1	58.9	16.6	8.0	7.0	4.2
Total trade	39.2	46.5	24.1	15.5	5.0	5.9

Commodity	Japan		LAIA countries		World
	1990	1995	1990	1995	All years
Food	4.4	5.6	10.6	16.6	100.0
Non-food agriculture	8.2	8.0	15.1	14.3	100.0
Metals and minerals	20.9	19.5	7.1	11.6	100.0
Fuels	4.1	1.6	5.1	15.3	100.0
Manufactures	3.1	1.4	16.8	19.5	100.0
Total trade	6.0	4.2	10.9	17.4	100.0

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

[a] Excluding Japan.

B. THE DYNAMICS OF LAIA TRADE WITH ASIA AND THE PACIFIC

The relative dynamism of Latin American trade with Asia has incorporated a process of market diversification. For instance, Japan's importance for LAIA trade with Asia and the Pacific, has been declining, although it is still relevant. In 1980, 75% of total exports to the 12 Asian and Pacific countries went to Japan. That country also had a similar share of total LAIA imports from Asia. Ten years later, Japan absorbed almost 55% of LAIA exports to Asia and provided over 60% of LAIA imports from the region. This latter share decreased to 44% in 1995, while Japan's share of LAIA exports to Asia did not reach 42% in that same year. Japan's declining share of total LAIA exports to Asia has been compensated mostly by increases from the Republic of Korea, which represented almost 12% of total exports to Asia in 1995, and China, which absorbed over 11% of total exports to the region. In terms of imports, the Republic of Korea reached almost 15% of total LAIA imports from Asia, and Chinese Province of Taiwan accounted for about 10%, thereby contributing to reducing Japan's share of total LAIA imports from Asia and the Pacific.

The previous observation is important because it affects the comparisons between annual average rates of growth of LAIA trade with Asia and the Pacific and other regions of the world. When trade with Japan is excluded from the calculation, the average annual growth rate of LAIA exports to Asia and the Pacific increases from 11% to 16.4%. This level is close to the increase of LAIA exports to the United States (16.6%) and superior to the overall growth of its exports to the world (12.6%). The exclusion of trade with Japan is even more remarkable in relation to LAIA imports from Asia and the Pacific. When Japan is included, LAIA imports from Asia and the Pacific increased on an annual average basis of 26%

between 1990 and 1995. Excluding Japan, the average increase of imports leaps to 35.5% over the same period.[9]

Table 9 presents the average growth of imports from the world and from Asia and the Pacific for each LAIA country for the period 1990-1995. Both sides of the table show significant levels of growth in imports, reflecting the liberalization process that has characterized recent trade policies in the region. However, imports from Asia and the Pacific present a much higher growth rate in general, with a high regional average of 25.5%. Peru and Uruguay, in particular, increased their imports from Asia by approximately 40% on an average annual basis. Furthermore, all the LAIA countries increased their imports from Asia at an average annual rate of 15% or more.

Table 10 presents the growth rates for Latin American exports to the world and to Asia. The increase in export flows from Latin America to Asia seems to be much less vigorous than the import flows. The regional average growth rate is less than half the import growth rate, and only two countries had average annual growth rates over 20% (Uruguay and Ecuador). Apart from Venezuela, all countries had positive growth rates in their exports to Asia. Including Venezuela, five countries posted growth rates below the regional average in exports to Asia and the Pacific.

Table 9
THE GROWTH OF LAIA IMPORTS
(Annual average growth rates 1990-1995)

	Country	Total imports	Country	Imports from Asia and the Pacific [a]
1	Peru	37.6%	Peru	39.2%
2	Uruguay	23.6%	Uruguay	38.9%
3	Brazil	19.9%	Paraguay	27.0%
4	Argentina	19.8%	Brazil	26.6%
5	Paraguay	19.6%	Argentina	26.2%
6	**LAIA**	19.1%	**LAIA**	25.5%
7	Ecuador	18.4%	Mexico	22.8%
8	Chile	18.4%	Colombia	22.2%
9	Mexico	16.2%	Bolivia	21.8%
10	Bolivia	15.2%	Ecuador	20.3%
11	Colombia	14.9%	Chile	18.4%
12	Venezuela	10.3%	Venezuela	15.0%

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

[a] Represents 12 countries.

Another pertinent aspect of trade between Latin America and Asia and the Pacific is the latter region's export and import flows. Table 11 presents this information for the year 1995. In that year almost 30% of Paraguay's total imports originated in Asia and the Pacific and about 35% of Chilean exports were destined for that region.

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[9] The high levels of growth that Latin America has secured with Asia and the Pacific stem mostly from the fact that the initial values of trade between both regions were small, allowing for higher percentages of expansion.

Table 10

THE GROWTH OF LAIA EXPORTS
(Annual average growth rates, 1990-1995)

	Country	Total exports	Country	Exports to Asia and the Pacific [a]
1	Mexico	24.8%	Uruguay	31.7%
2	Chile	13.4%	Ecuador	24.5%
3	**LAIA**	12.6%	Chile	19.9%
4	Argentina	11.2%	Peru	16.2%
5	Ecuador	9.5%	Colombia	13.6%
6	Peru	8.5%	Argentina	11.7%
7	Colombia	8.5%	**LAIA**	10.7%
8	Brazil	8.0%	Brazil	8.5%
9	Uruguay	4.4%	Paraguay	6.7%
10	Bolivia	2.6%	Mexico	2.3%
11	Venezuela	0.8%	Bolivia	1.8%
12	Paraguay	-3.1%	Venezuela	-14.4%

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

[a] Represents 12 countries.

The asymmetry between Asia's market share of Latin American trade and Latin America's share of Asian and Pacific trade becomes evident in comparing table 11 with table 19. Asia is an important trade partner for Latin America, but Latin America is not yet a major market for Asia. In Latin America, Asia's share of total imports is more than 10% in nine countries, and six Latin American countries send more than 10% of their exports to Asia. Only in Japan is Latin America's market share of total imports over 3%, and only Korea sends more than 3% of its total exports to Latin America (see table 19).

Another characteristic of Latin American trade with Asia is the concentration of trade flows in very few countries (see table 11). For instance, in the case of LAIA imports from Asia, three countries (Brazil, Mexico and Chile) capture 67% of total regional imports, while Brazil, Chile and Argentina seize 75% of all LAIA exports to Asia and the Pacific.

Table 11

ASIAN AND PACIFIC MARKET SHARE OF TOTAL LAIA IMPORTS AND EXPORTS

Country	Imports from Asia and the Pacific [a] (C.I.F.)		Country	Exports to Asia and the Pacific (F.O.B.)	
	Millions of dollars	% of total		Millions of dollars	% of total
Paraguay	948.9	30.3	Chile	5,400.0	34.8
Chile	2,686.7	18.0	Peru	1,340.1	26.9
Peru	1,285.0	16.9	Uruguay	492.3	23.4
Bolivia	221.0	16.0	Brazil	7,887.0	17.1
Ecuador	584.5	13.9	Ecuador	464.5	10.9
Brazil	7,443.4	13.9	Argentina	2,147.8	10.2
Colombia	1,878.9	13.6	**LAIA**	20,702.0	10.1
LAIA	26,110.1	12.7	Paraguay	50.0	6.1
Argentina	2,477.8	12.3	Colombia	586.7	5.8
Mexico	7,418.9	10.2	Mexico	1,964.0	2.5
Uruguay	254.0	8.9	Venezuela	360.0	1.9
Venezuela	910.1	8.4	Bolivia	8.0	0.8

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

[a] Represents twelve countries.

C. PRODUCT COMPOSITION OF LAIA IMPORTS FROM ASIA AND THE PACIFIC

Table 12 shows the contrast between the product composition of Asian and Pacific imports from Latin America and that of Latin American imports from Asia. The table lists the 20 products that had the highest average import value in Latin American imports from Asia in the period 1990-1995, indicating the value of trade of these products for the year 1995, their share of total Latin American imports from Asia and Asia's share in total imports of these products. Also, the table displays the five main suppliers for each of the 20 products to Latin America in that year, with their respective market share.

The extensive presence of manufactured products is one remarkable aspect of this list. Also, the 20 products listed had a combined annual average value equivalent to about 4% of LAIA total imports. As we will see later in table 20, which shows the top 20 LAIA export products to Asia, this contrasts with the small share (1.2%) that the major products imported from LAIA had in Asia's total imports. The 20 products in table 20 correspond to over 62% of total imports from LAIA. In contrast, the products in Table 12 only represent 48% of total LAIA imports from Asia. This implies that Latin America's imports from Asia are more diversified than Asia's imports from LAIA, or, from the Latin American perspective, that exports to Asia and the competitive position of Latin America are highly concentrated in primary products.

The importance of Asian and Pacific countries as suppliers of these 20 products is also remarkable. Of the 100 main suppliers listed, 47 correspond to Asian and Pacific countries. Although an Asian or Pacific country appears as the main supplier for only three of the products (passenger motor

vehicles, footwear and natural rubber), Asian and Pacific countries are the second main suppliers for 18 of the 20 products. Asia's share in total imports of natural rubber is over 84%, it is over 59% for toys and indoor games and it almost reaches 58% in the case of radio broadcast receivers. Altogether, Asia has over 40% of the market in seven of the 20 products.

Nonetheless, the table clearly indicates the predominant role of the United States as the primary supplier of 17 of these products. Alternative Latin American suppliers exist for lorry, truck and bus chassis, where Argentina and Brazil hold a combined share of over 75% of total LAIA imports. Argentina and Brazil also hold relatively high shares of the Latin American import market for lorries and trucks (22%), motor vehicles parts, n.e.s. (16.5%) and footwear (16.5%). The presence of these two countries reflects the increasing importance of manufactures in intraregional trade, as well as the relevance of intra-industrial trade between these countries.

Finally, imports of these products are concentrated on a small number of suppliers. The average share of the five main suppliers of each product reached almost 79%, a high level of concentration in comparison to the 69% level in table 20.

The composition of the products listed here indicate that Asia has already managed to enter the Latin American market for technology-intensive or high-scale-production goods. Asia's strategic position in relation to other suppliers suggests that to secure an even higher share of the LAIA market, Asia and the Pacific needs to increase its links with LAIA economies by building up alliances and various types of business cooperation. Achieving this goal requires a deeper knowledge of Latin American markets.

Table 12

LATIN AMERICA: TWENTY MAIN PRODUCTS IMPORTED FROM ASIA AND THE PACIFIC

Average for the period 1990-1995

Value of trade: 1995

(Millions of dollars)

1	2	3	4	5	6	7									8
	Asia and the Pacific				World										
Main products (SITC, Rev.1)	Value	%	Accum.	%World	value	Main suppliers [a] countries and % of imports									Total
1 7321 Pass motor vehicle excluding buses	1,754	6.7	6.7	23.9	7,345	JPN	16.0	USA	13.7	GER	12.7	ITA	10.9	KOR	7.7	61.0
2 7249 Telecommunication equipment n.e.s.	1,380	5.3	12.0	24.0	5,757	USA	42.0	JPN	11.0	SWE	6.4	ESP	5.8	CAN	5.4	70.6
3 7293 Transistors,valves,etc	1,467	5.6	17.6	23.9	6,139	USA	69.8	JPN	10.4	KOR	6.0	TWN	2.4	MYS	2.2	90.7
4 8911 Sound recorders, phonographs, parts	837	3.2	20.8	48.3	1,733	USA	48.0	JPN	13.3	KOR	10.7	SGP	8.5	MYS	6.9	87.2
5 7323 Lorries, trucks	741	2.8	23.7	25.7	2,878	USA	27.4	JPN	20.5	ARG	12.9	BRA	9.3	KOR	5.1	75.1
6 7242 Radio broadcast receivers	583	2.2	25.9	57.9	1,007	USA	31.7	MYS	11.8	HKG	9.7	CHN	9.4	JPN	8.4	71.0
7 7327 Lorry, truck, bus chassis	12	0.0	25.9	6.5	180	ARG	48.3	BRA	26.8	USA	9.9	JPN	6.4	ITA	3.2	94.6
8 8942 Toys, indoor games	608	2.3	28.3	59.1	1,029	USA	25.2	CHN	22.3	HKG	18.9	TWN	10.0	JPN	4.2	80.6
9 7143 Statistical machines	645	2.5	30.7	18.0	3,581	USA	65.9	MEX	5.2	JPN	4.8	KOR	3.4	TWN	3.3	82.4
10 7241 Television receivers	378	1.4	32.2	47.7	793	USA	32.0	KOR	24.3	ARG	7.1	MEX	6.1	JPN	5.8	75.2
11 7222 Switchgear, etc.	582	2.2	34.4	14.0	4,159	USA	64.2	JPN	6.9	GER	6.8	FRA	3.4	TWN	2.8	84.0
12 7221 Electric power machinery	505	1.9	36.4	17.8	2,845	USA	54.0	JPN	7.8	GER	6.5	BRA	4.8	FRA	3.4	76.5
13 6535 Woven synthetic fabrics	446	1.7	38.1	43.9	1,017	USA	35.3	KOR	30.4	TWN	5.4	CHN	3.2	PAN	2.5	76.7
14 7328 Motor vehicle parts, n.e.s.	439	1.7	39.7	7.4	5,972	USA	48.9	GER	11.9	BRA	9.9	ARG	6.6	JPN	5.7	83.0
15 7299 Other electrical machinery	462	1.8	41.5	16.7	2,768	USA	63.5	JPN	9.2	GER	5.7	ITA	4.0	TWN	2.3	84.6
16 8510 Footwear	408	1.6	43.1	56.3	724	CHN	15.5	IDN	13.2	HKG	11.6	BRA	8.7	ARG	7.8	56.8
17 2311 Natural rubber, gums	400	1.5	44.6	84.1	475	SGP	37.5	IDN	29.2	MYS	15.1	GTM	5.3	USA	2.9	90.0
18 8411 Textile clothes not knit	319	1.2	45.8	17.6	1,811	USA	57.6	CHN	8.2	PAN	6.0	HKG	5.2	URY	3.1	80.2
19 7250 Domestic electric equipment	358	1.4	47.2	29.8	1,202	USA	29.5	KOR	12.7	ITA	7.9	BRA	6.7	CHN	5.4	62.2
20 3214 Coal, excluding briquettes	303	1.2	48.4	30.6	991	USA	42.0	AUS	27.3	CAN	12.2	ZAF	5.6	POL	5.0	92.0
Other products	13,484	51.6	100.0	8.8	152,575										
Total trade	26,111	100.0		12.7	204,981										

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

Note: Column 1 presents the 20 main products imported by the 11 LAIA countries from the 12 Asian and Pacific countries. It is based on the average value of imports for the period. Column 2 refers to the value of imports of these goods in 1995. Column 3 is the share of the product of total imports from Asia and the Pacific in 1995: Column 4 shows the accumulated share of these products of total imports from Asia. Column 5 shows the share of the imported product from Asia of total imports of the product from the world. Column 6 refers to the total value of imports of the product from the world. Column 7 presents the five main suppliers of the product and their share of total imports from the world. Column 8 presents the share of these five suppliers of the total value of imports of the product.

[a] See annex 1 for the country codes explanation.

D. MARKET-ACCESS LIBERALIZATION IN LAIA COUNTRIES

Trade liberalization in LAIA countries has been carried out as an integral part of economic reforms, via a series of stabilization programmes to reduce inflation, improve public fiscal balance (involving ambitious privatization programmes), enhance the level of domestic investment and savings, establish more stable exchange rate regimes and to introduce a more open trade and investment environment. This has contributed to the creation of a healthier, "market-friendly" climate for both domestic and foreign economic agents.

The buoyancy of intraregional trade among LAIA countries in the 1990s, has both caused and resulted from the proliferation of bilateral or multilateral integration and free trade agreements. Traditional integration arrangements in LAIA countries have adjusted themselves to new realities: instead of serving as instruments for the limited expansion of protected markets, they have become a strategic weapon for export expansion and a potential trampoline, or testing ground, for access to developed country's markets for new manufactures from the region.[10]

These integration agreements are greater in number and more ambitious in nature and scope. For example, the Interregional Cooperation Framework Agreement signed between Mercosur and the European Union in December of 1995 contains provisions for increasing and diversifying trade between the two groups, with a view to establishing a free trade area early in the next century. Towards a similar goal, Canada has recently started official discussions with Mercosur, while the latter has begun contracts with Australia, China, Japan, New Zealand, Panama and others. Chile and Mexico individually signed a similar agreement with the European Union. Chile has also signed a free trade area agreement with Canada. Most significantly, many governments of Latin America and the Caribbean are committed to creating the hemisphere-wide Free Trade Area for the Americas (FTAA) beginning in the year 2005.

At the regional level, Mercosur signed an Economic Complementation Agreement in June 1996 to form a free trade area with Chile and a Framework Agreement with Bolivia in December 1996 to do the same. Among the 11 countries in LAIA, 36 Economic Complementation Agreements have been signed, 31 of which are bilateral agreements. Some of these have already been superseded or replaced by new bilateral or plurilateral agreements which tie these countries, in one way or another, to free trade. The major pending issues are the completion of Mercosur negotiations with Mexico and with four of the Andean Community countries. With regard to the former, the parties have already exchanged lists of products which are of mutual interest. For the latter, negotiations have already begun, seeking to harmonize prior bilateral agreements signed between the countries concerned and establish a framework agreement for the negotiation of trading norms between the two integration schemes, by country or by group.

The new realities of integration have produced a drastic modification of the countries' tariff structures, reducing the dispersion around the mean and eliminating NTBs on imports. The governments have eliminated anti-export biases and stimulated the production of tradables in goods or services. They have also made significant strides in making the export promotion system compatible with norms established by the World Trade Organization (WTO).

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[10] See ECLAC, *Open Regionalism in Latin America and the Caribbean: Economic Integration as a Contribution to Changing Production Patterns with Social Equity* (LC/G.1801/Rev.1-P), Santiago, Chile, 1994. United Nations publication, Sales No. E.94.II.G.3.

In general, the tariff profiles of LAIA countries are now similar: the majority fall between 5% and 25% and the maximum does not exceed a 35% level except in some countries (see table 13). The average rate fluctuates between 8.63% and 16.33%. The tariffs of the four Mercosur members are similar, as are those of three of the member countries of the Andean Community (Colombia, Ecuador and Venezuela). Bolivia, Chile and Peru have a small spread, while Mexico and Brazil show a much wider dispersion. (For the distribution of tariffs by their range, see table 14.) Although the nominal rates have been reduced markedly in recent years, high effective rates of protection still apply to a wide range of products.

The tariff structure within each subregional grouping is basically conditioned by their common external tariffs (CET). In Mercosur, the CET began to operate in January 1995. The range of tariffs is 0-20%, within which there are 11 different levels. The CET applies to close to 88% of the list of items (some 8,500 lines). A list of exceptions to the CET has been established for up to 300 tariff items per country (399 for Paraguay), effective through the end of the year 2000 (2006 for Paraguay). The list has to be converged linearly and automatically to the CET rate within this specified period. Besides these exceptions, two sectors (namely, automobiles and sugar) are under a special regime. Capital goods, telecommunications, and computer equipment are also treated differently: capital goods will have a maximum tariff of 14% effective from the year 2001 (2006 for Paraguay and Uruguay); computer equipment and telecommunications goods will have a maximum CET of 16% from the year 2006. The general CET structure of Mercosur currently is as follows: the tariff average is 11.1%; the level of the most frequent (modal) tariff is 14% (applying to 24.4% of all products); and the standard deviation of 6.22.

Table 13
TARIFF STRUCTURE OF LAIA COUNTRIES
(Mid-1996)

Country	Total schedules	Minimum tariff	Maximum tariff	Average tariff	Standard deviation
Argentina	9,188	0	33	13.62	6.55
Bolivia	6,778	2	10	9.69	1.17
Brazil	11,795	0	70	9.33	7.17
Chile	5,812	0	11	10.95	0.67
Colombia	7,236	0	40	11.43	5.21
Ecuador	6,755	0	35	11.23	5.16
Mexico	9,718	0	260	15.43	12.65
Paraguay	9,118	0	30	8.63	6.18
Peru	6,500	15	25	16.33	3.16
Uruguay	10,257	0	30	9.84	6.84
Venezuela	6,600	0	35	11.63	4.83

Source: ECLAC, on the basis of statistics compiled by the Latin American Integration Association (LAIA).

In the case of the former Andean Group, in the early 1970s, the member countries approved a common minimum external tariff, which was of limited application. The IV Andean Presidential Council recently decided to adopt a CET with five tariff levels (0%, 5%, 10%, 15% and 20%) depending on the degree to which products are processed, giving special treatment to Bolivia.[11] The three countries

[11] Decision 370 applying to the CET was approved in November 1994; at the same time it was ruled that Bolivia would retain its flat-rate tariff of 10% for an indefinite period, except for certain items for which the rate would be 5%.

(Colombia, Ecuador and Venezuela) which operate the CET are allowed to exempt products (e.g., textiles and automobiles) with a tariff superior to the maximum CET of 20%.

Table 14
DISTRIBUTION OF APPLIED TARIFF LINES FOR LAIA COUNTRIES
(Mid-1996)

Country	0	1-5	6-10	11-15	16-20	21-25	26-30	31-35	36-40	>40
					Range (%)					
Argentina	446	1,624	1,360	1,757	1,877	1,862	139	123		
Bolivia		412	6,366							
Brazil	3,306	1,686	1,267	1,963	3,320	3	68	133	12	37
Chile	22			5,790						
Colombia	190	2,669	1,043	1,666	1,622			45	1	
Ecuador	212	2,474	1,177	1,254	1,623			15		
Mexico	1	64	4,321	2,920	1,866	3		477	1	65
Paraguay	264	3,976	1,318	1,656	1,898	1	5			
Peru				5,634		866				
Uruguay	637	2,926	1,917	1,799	2,816	162				
Venezuela	143	2,263	1,060	1,604	1,517			13		

Source: ECLAC, on the basis of statistics compiled by the Latin American Integration Association (LAIA).

Since August of 1992, Peru has not participated in either the free trade area or the CET of the Andean Group, due to the incompatibility of its tariffs with those of the other three members. Peru's tariff structure consists of two levels: 12% tariff applies to roughly 97% of the total products, while the remaining products are levied with a rate of 20%. For certain exceptions, such as some consumer durables and luxuries (including automobiles) and certain food and agricultural products, the rate is 17%. Peru recently announced its return to the Andean Community, which will entail the country's gradual reintegration into the free trade area between August 1997 and 2005. Peru's reintegration into the Andean Community should facilitate the constitution of a framework agreement with Mercosur.

With respect to NTBs, a study by the Economic Commission for Latin America and the Caribbean (ECLAC) reports that in mid-1996, 202 measures were being applied by Argentina; 31 by Bolivia; 203 by Brazil; 124 by Chile; 115 by Colombia; 95 by Ecuador; 36 by Paraguay; 96 by Peru; 101, by Uruguay; and 87 by Venezuela. The NTBs employed by LAIA member countries are diverse, including those related to public health and consumer protection, and some may not be in force. However, there is a notable concentration in a small number of categories, such as the requirement of prior authorization for sensitive products or a total import ban of such goods, technical norms and inspection and quarantine specifications.[12]

Given the large number of products still "exempted" from the CET and the proliferation of NTBs in both Mercosur and the Andean Community, it is recommendable that relevant, updated information be made available to the authorities of countries outside these subregions. This will increase the transparency of the complex process of trade liberalization within the two integration schemes and their possible fusion in the future.

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[12] See ECLAC, Panorama de la inserción internacional de América Latina y el Caribe, 1996 (LC/G.1941), Santiago, Chile, December 1996, pp. 60-61.

In today's international context, common external tariffs and moderate levels of protection against third-party competitors are efficient means to reduce incentives for smuggling and avoid accusations of unfair trade practices related to the use of inputs with different levels of protection. They also lessen the need for strict rules of origin, which can represent a serious obstacle to trade liberalization. Common tariffs, which can be phased out gradually, should be a priority for sectors where their absence would cause great distortions and for nearby countries with which intensive reciprocal trade is practiced and whose production structures are similar. Special care should be taken in the implementation of CET and rules of origin to reduce trade diversion as much as possible and to avoid heavy discrimination against trade partners and investors from outside the region.

E. ADDITIONAL REMARKS

Global empirical assessments of the Uruguay Round are difficult, in part because of lack of information on the responsiveness of trade flows to changes in tariffs, and in part because of uncertainty relating to tariffication and quota elimination. In addition, significant elements of many of the agreements came into operation only towards the end of the agreed transition phase. The impact that the agreements will have on new issues is unlikely to be known for some time. It is clear, however, that the increased scope of tariff bindings in developed and developing countries promises enhanced market access to both Latin America and Asia and the Pacific. The economies in both regions should abide by their Uruguay Round commitments without backsliding and, when possible, accelerating and broadening them.

The establishment of the North American Free Trade Agreement (NAFTA) has been an issue of concern to Asian countries, mainly because the United States is an important export market and source of FDI for Asia, and Mexico's membership in NAFTA might divert United States imports and FDI away from Asian countries. Existing analyses of NAFTA's impact on Asian countries,[13] however, suggest that, except for certain industries, the extent of trade and investment diversion away from Asia in favour of Mexico might not be as great as originally imagined. The commitments made in the Uruguay Round, progress by the Asia Pacific Economic Cooperation (APEC) in promoting free, open trade and investments in the region and the possibility of further improvements in the multilateral framework for trade could minimize the adverse impact of NAFTA on third countries in the coming years. Though preferential treatment based on the fulfilment of North American content requirements contains elements of discrimination, some Asian firms are taking advantage of NAFTA not only in the production of goods for export to third countries, but also as markets for their products.

Asian and European countries are also concerned by recent moves in the United States to promote the possible extension of NAFTA to Latin America and the Caribbean through the Free Trade Area for the Americas (FTAA). In this case, the potential for trade and investment diversion over the long run could be more serious for Asia than in the case of NAFTA, because the United States has had more trade barriers for exports from most Latin American economies than from Mexico. Additionally, Latin America as a whole exhibits a more diversified export structure that could result in direct competition with exports from Asian countries. Moreover, there is wide room for restructuring Latin American exports towards the United States

[13] For a synthesis of these analyses, see Julius Caesar Parrenas, "Rapidly Emerging Regional Integration Systems: Implications for the Asian Developing Countries and Possible Policy Responses" (UNCTAD/ITD/19), December, 1995.

in the wake of the FTAA completion. since the United States currently takes up relatively small proportions of exports from several large Latin American countries, such as Argentina and Brazil.

An important question is whether integration within Latin America and the Caribbean should be further consolidated before proceeding to the establishment of FTAA in 2005. Or can progress be made concurrently on both fronts? From the viewpoint of Asia and the Pacific, the content and context of an envisaged free trade area in the Western Hemisphere will no doubt condition its economic relations with Latin America and the Caribbean. It is therefore of great interest for Asia and the Pacific to keep abreast of the ongoing deliberations on FTAA and the negotiations scheduled to begin in April 1998.

II. GENERAL OVERVIEW OF ASIAN AND PACIFIC TRADE

The trade performance of Asian and Pacific countries has been outstanding. In 1980 the region exported less than US$ 280 billion. By 1990, that total had increased to almost US$ 700 billion, and in 1995 to more than US$ 1,200 billion. These results on the export side were matched by the import side. Total imports jumped from US$ 292 billion in 1980, to almost US$ 700 million 10 years later, and to over US$ 1,300 billion in 1995. These values indicate an average annual rate of growth between 1990 and 1995 of about 12% for exports and over 13% for imports.

During this five-year period, trade among the 12 countries increased 16% annually, on average (see table 15). Such dynamic behaviour has meant that other regions have lost their relative importance as either suppliers of or destinations for trade with Asia and the Pacific. At present, 50% of Asia and the Pacific's total exports and 53% of total imports correspond to intraregional trade. In 1980 the share of intraregional trade was about 36% for exports and 37% for imports.

Growth of Asian exports to Latin America reached an average of 20% per year between 1990 and 1995, an even more pronounced growth than intra-Asian trade. This is a clear indication that trade liberalization in Latin America poses a first-rate opportunity for Asian and Pacific countries to increase their share of this expanding market. On the other hand, Asian and Pacific imports from LAIA increased less than 9% on an annual basis in the last five years, indicating that Latin America must find new forms of increasing its exports to Asia.

Despite the growth of trade between the two regions, Latin America has remained a minor partner in Asia's export and import flows. In 1995, only 1.8% of total Asian and Pacific exports went to Latin America, and only 2% of imports originated in LAIA countries. Even more disquieting is that fifteen years earlier, the share of LAIA countries in total Asian and Pacific exports was a full per cent higher, while their share of total Asian imports has remained stationary.

The following tables, which are based on Asian and Pacific trade statistics, provide a concise view of the role of Latin America in Asian trade flows.[14]

[14] Data in the following tables include re-exports from Hong Kong and Singapore and therefore may distort somewhat the level of Latin American penetration in terms of Asia and the Pacific's total imports.

Table 15
ASIAN AND PACIFIC IMPORTS [a]
Value of imports
(*Millions of dollars, c.i.f.*)

Year	United States	European Union	Asia and the Pacific	LAIA countries	Other	World
1970	9,311	6,285	12,813	1,278	8,697	38,384
1980	51,684	30,029	108,942	6,363	95,621	292,639
1990	130,257	106,914	325,263	16,683	116,643	695,761
1995	222,295	191,245	690,187	25,464	172,636	1,301,827
Average annual growth rates						
Trade flows	**United States**	**European Union**	**Asia and the Pacific**	**LAIA countries**	**Other**	**World**
1990-1980	9.7	13.5	11.6	10.1	2.0	9.0
1990-1995	11.3	12.3	16.2	8.8	8.2	13.3
Share of total imports						
(Percentages)						
Year	**United States**	**European Union**	**Asia and the Pacific**	**LAIA countries**	**Other**	**World**
1970	24.3	16.4	33.4	3.3	22.7	100.0
1980	17.7	10.3	37.2	2.2	32.7	100.0
1990	18.7	15.4	46.7	2.4	16.8	100.0
1995	17.1	14.7	53.0	2.0	13.3	100.0

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).
[a] Represents 12 countries.

Table 16
ASIAN AND PACIFIC EXPORTS
VALUE OF EXPORTS
(*Millions of dollars, f.o.b.*)

Year	United States	European Union	Asia and the Pacific	LAIA countries	Other	World
1970	9,688	5,901	11,784	794	7,172	35,340
1980	61,688	43,146	99,199	7,700	61,650	273,383
1990	179,227	121,176	291,905	9,059	92,159	693,525
1995	269,310	177,517	614,979	22,551	140,842	1,225,199
Average annual growth rates						
Trade flows	**United States**	**European Union**	**Asia and the Pacific**	**LAIA countries**	**Others**	**World**
1990-1980	11.3	10.9	11.4	1.6	4.1	9.8
1990-1995	8.5	7.9	16.1	20.0	8.9	12.1
Share of total exports						
(Percentages)						
Year	**United States**	**European Union**	**Asia and the Pacific**	**LAIA countries**	**Other**	**World**
1970	27.4	16.7	33.3	2.2	20.3	100.0
1980	22.6	15.8	36.3	2.8	22.6	100.0
1990	25.8	17.5	42.1	1.3	13.3	100.0
1995	22.0	14.5	50.2	1.8	11.5	100.0

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).
[a] Represents 12 countries.

A. THE DYNAMICS OF ASIAN AND PACIFIC TRADE WITH LAIA COUNTRIES

As mentioned above, Asia has increased its total exports by 12% per year and its imports by 13% per year in the period 1990-1995. As tables 17 and 18 show, however, these averages do not reflect the dynamic activity of some countries of the region. Malaysia, for instance, has increased its exports by 20% annually, while its imports expanded by 22% on average in the same period.

Table 17 gives a broad view of the dynamics of growth of Asia and the Pacific's total exports, intraregional exports and exports to Latin America. The growth of exports to Latin America is high. Eight countries had annual average growth rates over 20% between 1990 and 1995. Notably, four countries had increases of over 40% in their exports to the region (Indonesia, the Philippines, Malaysia and China). These are clearly the Asian countries that most benefited from Latin American economic stabilization and trade liberalization.

Another important point raised by table 17 has to do with the weight of intraregional trade in Asia. Although, the average annual increase of intraregional exports reached 16% in the period, six countries had growth rates superior to the regional average. In two cases the average growth was superior to 20% annually. These numbers certainly illustrate the extent of Asian and Pacific integration and the speed with which it has occurred.

Table 17

THE GROWTH OF ASIAN AND PACIFIC EXPORTS

(Annual average growth rates, 1990-1995)

	Country	Total exports (%)	Country	Exports to Asia and the Pacific [a] (%)	Country	Exports to LAIA (%)
1	Malaysia	20.2	Thailand	25.2	Indonesia	50.9
2	Thailand	19.6	Singapore	20.8	Philippines	46.2
3	China	19.1	Republic of Korea	19.0	Malaysia	45.3
4	Singapore	17.5	Malaysia	18.6	China	42.1
5	Philippines	16.0	Philippines	17.8	Republic of Korea	31.4
6	Republic of Korea	13.6	Chinese Province of Taiwan	17.1	Singapore	29.0
7	Indonesia	12.2	Japan	16.1	Thailand	25.3
8	**Asia and the Pacific**	12.1	**Asia and the Pacific**	16.1	Chinese Province of Taiwan	22.4
9	Chinese Province of Taiwan	10.7	China	15.5	**Asia and the Pacific**	20.0
10	Japan	9.1	New Zealand	11.0	Japan	13.6
11	New Zealand	7.6	Indonesia	9.5	New Zealand	7.7
12	Australia	5.2	Australia	8.8	Australia	6.0
13	Hong Kong	0.6	Hong Kong	5.3	Hong Kong	-2.0

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

[a] Represents 12 countries.

On the import side, the circumstances are less favourable for Latin America. Between 1990 and 1995, Asia and the Pacific as a whole increased its imports of Latin American products by 8.8% annually. Seven countries had growth rates higher than the regional average. However, the highest average increase was only 17.5% (China), and only three countries had annual increases of more than 15% for this period (China, the Republic of Korea and Indonesia).

The situation is not the same for Asia and the Pacific's total imports or intraregional imports. In both cases, the rates of increase are much higher than those with Latin America. Malaysia, China, the Philippines and Hong Kong are the most dynamic importers of the region, in terms of both total and intraregional imports (see table 18).

Table 18

THE GROWTH OF ASIAN AND PACIFIC IMPORTS

(Annual average growth rates 1990-1995)

	Country	Total imports (%)	Country	Imports from Asia and the Pacific (%)	Country	Imports from LAIA (%)
1	Malaysia	22.0	Malaysia	22.5	China	17.5
2	China	19.9	China	20.9	Republic of Korea .	17.0
3	Hong Kong	18.5	Philippines	20.5	Indonesia	16.5
4	Philippines	16.9	Hong Kong	18.7	Hong Kong	14.2
5	Thailand	16.2	Singapore	17.9	Chinese Province of Taiwan	12.9
6	Singapore	15.4	**Asia and the Pacific**	16.2	Malaysia	12.7
7	Chinese Province of Taiwan	13.9	Thailand	16.2	Thailand	10.6
8	Republic of Korea	13.7	Chinese Province of Taiwan	16.2	**Asia and the Pacific**	8.8
9	**Asia and the Pacific**	13.3	Republic of Korea	15.3	Singapore	7.6
10	Indonesia	13.2	Indonesia	12.9	Australia	6.8
11	New Zealand	8.1	Japan	11.8	Philippines	6.3
12	Japan	7.6	New Zealand	9.9	New Zealand	5.4
13	Australia	7.4	Australia	8.9	Japan	3.8

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

[a] Represents 12 countries.

Latin America has only attained a small market share in Asia. Table 19 presents the market penetration of imports from Latin America and of Asian exports to Latin America. The contrast between import and export shares is considerable. Although Latin American market shares of total Asian exports and imports are similar (1.84% and 1.96%, respectively), they hide significant differences at the country level. In 1995 LAIA absorbed less than 1% of total exports of Thailand, the Philippines, Hong Kong and Singapore. The import penetration ratio of LAIA in Asia only surpasses 3% in the case of Japan, followed by Indonesia and the Republic of Korea with about 2.6%.

Trade with LAIA countries is concentrated among a limited number of Asian countries. In the case of Asian imports, three countries (Japan, the Republic of Korea and China) receive 66% of the total value of regional imports from Latin America, and the same three countries provide 73% of all Asian exports to that region.

Table 19
LAIA MARKET SHARE OF TOTAL ASIAN AND PACIFIC IMPORTS AND EXPORTS IN 1995
(Millions of dollars and percentages)

Imports from LAIA			Exports to LAIA		
Country	**Millions of dollars**	**%**	**Country**	**Millions of dollars**	**%**
Japan	10,698,157	3.21	Republic of Korea	4,280,155	3.49
Indonesia	1,071,730	2.64	New Zealand	311,293	2.38
Republic of Korea	3,419,808	2.58	Japan	10,109,353	2.28
Chinese Province of Taiwan	2,347,101	2.30	Chinese Province of Taiwan	2,071,753	1.86
China	2,657,462	2.01	**Asia and the Pacific**	22,550,906	1.84
Asia and the Pacific	25,463,941	1.96	China	2,107,029	1.42
Philippines	471,472	1.66	Malaysia	927,116	1.26
Thailand	1,079,442	1.54	Indonesia	524,587	1.16
Malaysia	889,750	1.18	Australia	527,983	1.14
Australia	641,250	1.13	Singapore	975,223	0.83
New Zealand	140,160	1.00	Hong Kong	240,155	0.80
Singapore	872,062	0.70	Philippines	112,932	0.67
Hong Kong	1,175,548	0.61	Thailand	363,328	0.65

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

B. THE PRINCIPAL PRODUCTS IMPORTED BY ASIA FROM LAIA COUNTRIES

Table 20 shows the 20 categories of Asian and Pacific imports from Latin America with the highest average import values in the period 1990-1995. The first element that stands out from the table is the high concentration in natural resources. Another important element is the limited importance of the products in total Asian and Pacific imports. These 20 products represented about 62% of Asian and Pacific imports from Latin America in 1995, but only 1.2% of Asia's total imports. Moreover, imports of these 20 products from the world corresponded to only 12% of total Asian imports in 1995, indicating that they are relatively marginal to the total flow of imports.

Even so, some Latin American countries are important suppliers of these 20 products. Chile provided 35% of total Asian and Pacific imports of copper alloys unwrought, the single most important product imported by Asia from Latin America (with a share of 11% of total imports from the region). Asia imported about 77% of meat or fish meal fodder from Peru and Chile, and more than 54% of total Asian imports of soybean oil came from Brazil and Argentina. These shares are impressive if analysed from the point of view of alternative suppliers. In the table, some important providers are from Asia, indicating that Latin America is highly competitive in these products.

The table clearly indicates the challenges for trade between Latin America and Asia and the Pacific. The nature of the products —essentially primary and semi-manufactured goods— implies that Latin America needs to increase the degree of processing of these natural-resource-based export products and to find new niches and gateways in Asia for more complex products. For Asia, the challenge is to search for new partnerships in Latin America, exploring the possibilities of complementary trade with

countries where natural resources are abundant, where wages are still at reasonable levels, and where a strong process of integration will create a market of considerable dimensions.

C. MARKET-ACCESS LIBERALIZATION IN ASIA AND THE PACIFIC

Asia and the Pacific has made considerable progress in liberalizing market access through the reduction of tariff and non-tariff barriers (NTBs). Both types of barriers have been reduced rapidly since the mid-1980s as a result of unilateral liberalization, regional integration schemes, or Uruguay Round commitments. As shown in table 21, average tariffs in Asia and the Pacific have declined considerably during the period 1988-1996. The simple average applied tariff in 1996 was below 15% for 10 of the 12 Asian and Pacific countries considered here; of these, eight were below 10% and three below 5%. Similarly, in 1988-1993 the incidence of NTBs affecting imports fell from 9% to 5% for APEC as a whole.[15] The percentage of national tariff lines covered by a selected group of NTBs shows that the Philippines, the Chinese Province of Taiwan, the United States, China and Japan all have relatively higher frequency ratios than Hong Kong, Australia and Singapore (see table 22), though this is not necessarily a satisfactory indicator.

[15] Asia-Pacific Economic Co-operation (APEC), *The Manila Action Plan for APEC*, vol. 1, MAPA highlights, Singapore 1996.

Table 20

ASIA AND THE PACIFIC: TWENTY MAIN PRODUCTS IMPORTED FROM LAIA

Average for the period 1990-1995. Value of trade: 1995

(*Millions of dollars*)

	1	2	3	4	5	6	7						8
		LAIA				World value							
	Main Products	Value	%	Accum.	% World		Main supplier [a] countries and % of imports						Total
	(SITC, Rev.1)												
1	6821 Copper, alloys unwrought	2,820	11.1	11.1	41.8	6,750	CHL	35.3 USA	11.1 ZMB	8.1 PHL	7.4 JPN	7.0	61.9
2	2813 Iron ore, etc, excluding pyrtes	1,761	6.9	18.0	31.4	5,603	AUS	44.3 BRA	24.9 IND	11.4 ZAF	5.4 PHL	3.7	86.1
3	6841 Aluminium, alloys,unwrought	1,948	7.6	25.6	18.5	10,543	RUS	19.1 AUS	17.7 BRA	13.8 USA	6.2 CAN	5.5	56.9
4	3310 Crude petroleum, etc	894	3.5	29.1	1.4	61,799	SAU	28.3 ARE	19.4 IRN	7.9 IDN	7.2 OMN	7.1	62.7
5	0814 Meat or fish meal fodder	1,008	4.0	33.1	70.5	1,431	PER	34.0 CHL	33.9 USA	10.4 DNK	4.2 RUS	3.2	82.5
6	6725 Iron, steel blooms, slabes, etc.	815	3.2	36.3	14.7	5,555	RUS	31.4 CHN	21.9 BRA	12.5 AUS	4.6 TUR	4.3	70.4
7	2831 Copper ores, concentrates	1,108	4.3	40.7	26.0	4,266	IDN	25.9 CHL	24.0 CAN	14.2 PNG	12.5 AUS	6.4	76.6
8	2517 Sulphate wood pulp	881	3.5	44.1	16.5	5,353	CAN	36.3 USA	29.2 CHL	8.7 BRA	7.3 IDN	5.5	81.5
9	6727 Iron, steel coil for rerolling	324	1.3	45.4	5.0	6,499	JPN	28.2 KOR	14.8 RUS	8.4 USA	8.0 CHN	7.0	59.5
10	0311 Fish fresh, chilled, frozen	687	2.7	48.1	6.9	9,926	USA	19.2 TWN	10.5 RUS	8.4 KOR	7.2 CHN	6.3	45.2
11	0711 Coffee green, roasted, etc	668	2.6	50.7	39.0	1,715	BRA	18.0 COL	15.4 IDN	13.1 VNM	12.2 GTM	4.3	58.6
12	4212 Soybean oil	689	2.7	53.4	54.4	1,268	BRA	46.4 USA	32.0 ARG	8.0 MYS	5.1 VNM	2.4	91.5
13	2214 Soybeans, excluding flour	227	0.9	54.3	7.7	2,963	USA	85.8 CHN	4.0 BRA	3.8 ARG	2.6 CAN	1.8	96.2
14	6318 Wood simply worked n.e.s.	418	1.6	56.0	16.1	2,593	USA	31.5 AUS	23.8 CHL	13.6 CHN	10.2 ZAF	6.0	79.1
15	6741 Iron, steel heavy plate, etc.	224	0.9	56.8	7.2	3,114	JPN	30.9 CHN	12.5 RUS	9.9 KOR	7.7 BRA	7.1	60.9
16	2631 Raw cotton, excluding linters	424	1.7	58.5	7.6	5,543	USA	50.6 AUS	10.3 RUS	4.9 UZB	3.6 ARG	3.1	69.3
17	6114 Leather bovine n.e.s. equine	352	1.4	59.9	8.7	4,031	KOR	24.8 TWN	16.3 USA	10.5 ITA	9.1 THA	5.2	60.7
18	6712 Pig iron, including cast iron	122	0.5	60.4	10.1	1,208	CHN	67.8 BRA	10.1 JPN	6.3 RUS	5.2 IND	5.1	89.3
19	0313 Shell fish fresh, frozen	295	1.2	61.5	3.1	9,408	THA	13.5 IDN	10.9 RUS	8.1 CHN	7.0 IND	6.7	39.4
20	6732 Iron, steel bars, etc.	137	0.5	62.1	5.1	2,671	JPN	22.4 TUR	14.5 RUS	14.4 UKR	5.7 KOR	5.5	56.9
	Other products	9,661	37.9	100.0	0.8	1,149,588							
	Total trade	25,464	100.0		2.0	1,301,827							

Source The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

Note: Column 1 presents the 20 main products imported from LAIA by the 12 Asian and Pacific countries. It is based on the average value of imports for the period. Column 2 refers to the value of imports of these goods in 1995. Column 3 is the share of the product of total imports from LAIA in 1995. Column 4 shows the accumulated share of these products of total imports from LAIA. Column 5 shows the share of the imported product from LAIA of total imports of the product from the world. Column 6 refers to the total value of imports of the product from the world. Column 7 presents the five main suppliers of the product and their share of total imports from the world. Column 8 presents the share of these five suppliers of the total value of imports of the product.

[a] See annex 1 for the country codes explanation.

Table 21
TARIFF AVERAGES OF ASIAN AND PACIFIC COUNTRIES: 1988-1996

	Simple average applied tariffs		
	1988[a]	1993[b]	1996
Australia [c]	15.60	7.00	5.00
China	39.50	37.50	23.00
Chinese Province of Taiwan	12.57	8.89	8.64
Hong Kong	0.00	0.00	0.00
Indonesia	18.10	17.00	13.40
Japan [c]	4.30	3.40	4.00
Malaysia	13.60	12.80	9.00
New Zealand	14.90	8.50	5.70
Philippines	27.90	23.50	15.57
Republic of Korea	19.20	11.60	7.90
Singapore	0.30	0.40	0.00[d]
Thailand	31.20	37.80	17.00[e]

Source: Asia-Pacific Economic Co-operation (APEC), *The Manila Action Plan for APEC*, Vol. 1, MAPA highlights, Singapore, 1996.

[a] 1984-1987 for developing countries.

[b] 1991-1993 for developing countries.

[c] Figures are trade-weighted averages.

[d] Calculations exclude bound specific duties on agriculture.

[e] Average tariff in 1997.

Table 22
FREQUENCY RATIO OF CORE NON-TARIFF BARRIERS
(*Percentages*)

Country	Ratio	Country	Ratio
Australia	1	New Zealand	0.5
China	24	Philippines	37
Hong Kong	0.5	Republic of Korea	2
Indonesia	3	Singapore	1.5
Japan	18	Thailand	10
Malaysia	13	Chinese Province of Taiwan	31

Source: Chai Yu and others, *Economic Policies in APEC - The Case of China*, Tokyo, Asia-Pacific Economic Co-operation (APEC), Study Center and Institute of Developing Economies (IDE), March 1997, table 1.4, p. 10.

In the 1994 Bogor Declaration, APEC set the target of achieving free, open trade in Asia and the Pacific by 2010 for the developed member countries and 2020 for the developing ones. In 1995, the Osaka Action Agenda provided a guideline for implementing policy measures to reach this goal. In 1996 APEC leaders adopted the Manila Action Plan for APEC (MAPA), in which all members submitted their Individual Action Plans (IAPs) to be implemented beginning in 1997, based on the unique modality of unilateral announcement of liberalization commitments by individual countries. The IAPs consist of a comprehensive coverage of 15 areas, including both border and domestic measures, for three time horizons (short, medium and long terms).

The plans for tariff reduction over the next several years indicate that the majority of the APEC members have adopted a "Uruguay Round-Plus" approach, attaching timetables for substantially reducing tariffs in certain sectors ahead of the schedule envisaged under the Uruguay Round commitments (see table 23). New Zealand and Australia have committed additional tariff reductions to their Uruguay Round commitments and accelerated their reduction in comparison with the Bogor targets. Though Japan has committed a little more than its Uruguay Round commitments and accelerated its implementation by almost two years, its *applied* average tariff rate in 1996 was 9.0%, as a result of the tariffication of agricultural products. Similarly, the Republic of Korea, the Chinese Province of Taiwan and Mexico[16] have made relatively modest commitments. In contrast, the ASEAN countries have committed to greater IAP reductions,[17] which is consistent with their ambitious plan of tariff reduction programmed within the AFTA.[18] The targets set by China and Chile were also substantial, reflecting its eagerness to join the WTO.

Given that the tariff levels of developed members of APEC are generally low (the unweighted average rates are below 5%), it is recommended that they reduce them faster than programmed or abolish them at once, rather than pursue a gradual linear-cut reduction. These countries still maintain 15%-30% tariffs on textiles and some other industrial goods; they should be prepared to reduce them as fast as possible.[19] The level of protection varies considerable among countries as well as among sectors within a

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[16] Mexico and Chile are the only Latin American members of APEC.

[17] For instance, the Philippines set a goal of reducing the average tariff rates to 5% by 2004 under APEC, which is more liberal than the country's commitment of binding tariffs at their 1995 levels under WTO. In addition, the current deregulation and liberalization measures in the fields of telecommunications, transport, energy, tourism, distribution and finance, which are included in the Philippines IAP, are beyond the country's WTO commitment of not imposing restrictions on cross-border flows in various services (Economic Policies of APEC: The Case of the Philippines, APEC Study Center and Institute of Developing Economies (IDE), Tokyo, March 1997, p. 37).

[18] The ASEAN Free Trade Area (AFTA) was created in 1992 with the objectives of removing trade barriers, expanding intra-ASEAN trade and enhancing the region's economic integration. The basic mechanism is the Common Effective Preferential Tariff (CEPT) scheme. According to this scheme, intra-ASEAN tariffs will be reduced and non-tariff barriers will be removed over a 10-year period beginning on 1 January 1993. Originally, the CEPT scheme planned to reduce regional tariff rates to between 0% and 5%, involving 41,147 tariff lines, by 2008. That date was later advanced to 2003. The CEPT scheme provides for two tariff reduction schedules: the normal track and fast track. In the former, products with tariff rates above 20% will have their rates reduced to 20% by 1 January 1998 and subsequently from 20% to between 0% and 5% by 1 January 2003. Products with tariff rates at or below 20% will have their rates reduced to between 0% and 5% by 1 January 2000. Under the fast track, products with rates above 20% will have their rates reduced to between 0% and 5% by 1 January 2000, while those products with rates at or below 20% will have their rates reduced to 0% - 5% by 1 January 1998.

[19] Ippei Yamazawa, APEC's Liberalization and Impediments in Japan: Overview of Services Trade, Working Paper series 96/97, No. 9, Tokyo, Institute of Developing Economies (IDE) and Asia-Pacific Economic Co-operation (APEC) Study Center, March 1997, p. 5.

country. This suggests that relative price changes through further tariff cuts will have different effects on the different economies and that a sectoral disaggregation is essential for analysing APEC trade policy.

Another important issue is tariff escalation, in which the tariff applied on a product "chain" rises as the level of processing increases. Although the overall degree of escalation has been reduced as a result of the Uruguay Round negotiations, it continues to form an obstacle for the development of processing industries in developing countries.[20] A study on the tariffs and NTBs that Chile faces in Asian and Pacific markets concludes that both groups of barriers tend to increase in accordance with the level of processing of natural resources; high transport costs are also a substantial trade barrier.[21] While the issue of tariff escalation is commonly addressed in relation to market access in developed countries, developing countries themselves reveal significant tariff escalation.[22]

APEC works on the principle of open regionalism, which involves the integration of regional economies without discrimination against economies outside the region. What is not clear at present is whether trade and investment liberalization within APEC is to be extended unconditionally to non-members on a most favoured nation (MFN) basis, or whether such liberalization will be open to non-members only on a reciprocal basis. An analysis of APEC's possible impact on Latin America must therefore, consider both scenarios. The latter scenario is possible if the current sentiment in a number of APEC countries for maintaining and strengthening economic relations with the European Union and other non-APEC economies prevails. For this to be a viable option, these non-member countries, including the economies of LAIA, should intensify trade and investment liberalization efforts on their own —unilaterally, bilaterally or regionally— to reciprocate the APEC liberalization efforts.

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[20] As a result of the Uruguay Round negotiations, the percentage reductions in tariffs levied on products imported by developed economies from developing countries were generally greater on the earlier stages of processing, except that the cuts were greater for finished tropical products and semi-manufactured, natural-resource-based products than in the preceding stages of processing. UNCTAD, *Strengthening the Participation of Developing Countries in World Trade and the Multilateral Trading System* (TD/375/Rev.1), prepared by the UNCTAD Secretariat and the WTO Secretariat, with the assistance of the International Trade Centre UNCTAD/WTO, as a contribution to UNCTAD IX, Geneva, 1996.

[21] Ximena Clark, Comercio de Chile con APEC: Barreras arancelarias y no arancelarias, *Colección de Estudios*, Santiago, Chile, Latin American Economic Research Corporation (CIEPLAN), June 1996, pp. 83-115.

[22] UNCTAD, op. cit., p. 12.

Table 23
SALIENT FEATURES OF TRADE LIBERALIZATION IN ASIAN AND PACIFIC COUNTRIES

Country	Tariff barriers	Non-tariff barriers	Services
Australia	Simple average applied tariff has fallen from 18.2% in 1988 to 6.1% in 1996 and will be further reduce to 4.8% by the year 2000. Currently, around 40% of applied MFN tariffs are zero. Applied tariffs on passenger motor vehicles and textiles, clothing and footwear are being phased down for the year 2000. Post-2000 tariff levels for these products will be decided following reviews in 1996 and 1997.	Generally, NTBs are only applied for health and safety reasons. In addition to fulfilling its UR commitments, Australia will abolish export controls on certain mineral products (coal, mineral sands, liquified natural gas, bauxite and alumina) and phase out bounties for ships, computers, books, machine tools and robots.	*Telecommunications*: Full, open competition from 1 July 1997; privatization of one-third of Telstra with 35% of the float available to foreign investors. *Transport*: Windback maritime cabotage protection by 2000; in aviation, progressive liberalization of access to the market for freight and passengers. *Financial services*: inquiry into the financial sector to report by 31 March 1997.
Brunei Darussalam	80% of total tariff lines are zero. MFN tariffs on 910 items were recently eliminated, as a down payment on IAP. Import tariffs on another 688 items, including computers and related products, were reduced or abolished in 1995, as part of Osaka Initial Actions.	The few NTBs are consistent with WTO regulations.	Few restrictions on market access and the presence of natural persons. "Open sky" civil aviation policy, with no restrictions on foreign airlines.
China	6,350 tariff items were included in 1995, with a simple average tariff rate of 35.9%. In conformity with commitments made at the APEC Osaka meeting, rate was lowered for over 4,900 items starting from 1 April 1996, as a down payment for APEC trade liberalization. By 2000, the level of simple average tariff rate will be reduced from the current 23% to around 15%, with further reductions in medium and long terms.	In 1992, 20% of the import tariff lines (1,247 items) were subject to import control, such as quotas or licensing. Currently, only 5% of the total import tariff lines (384 items) are still subject to these measures. In the medium and long terms, all NTBs inconsistent with WTO will be reduced and eliminated.	In such areas as banking, insurance, security, commercial retailing, transportation, energy, telecommunications and tourism plans are underway to carry out reform and increase market access and business opportunities for foreign firms.
Chinese Province of Taiwan	Nominal average tariff is 8.64%. Its current trade weighted average is 5.36%. By 2000, tariffs on 65% of imported items will be 5% or less, and the nominal average tariff rate will be lowered to 6%.	Import bans will be eliminated on 31 lines of agricultural products. The import bans on the remaining 91 agricultural items will be replaced by WTO-consistent measures. Quantitative restrictions on 14 lines of agricultural products will be eliminated upon accession to WTO. The remaining 23 agricultural items subject to quantitative restrictions will be replaced by WTO-consistent measures.	Foreign lawyers will be permitted to establish offices and supply a number of services by 2000. The scope for partnerships with local lawyers will be reviewed. Foreign firms will be permitted to set up travel agencies. Banking, insurance and securities will be opened up between 1997 and 2000.

Indonesia	UR commitments include an across-the-board tariff of 40%, covering 8,877 tariff items (95% of all items). Earlier, only 10% of all the tariff items were bound. The exclusion list included motor vehicle assembly, non-electrical machinery, starter motors and communication electrical. The import-weighted tariff remained at a 7.6% in 1996. In accordance with AFTA commitments tariffs of 20% or less will be reduced in stages to 0%-5% by 2000; tariffs of more than 20% in 1995 will be reduced in stages to 0%-20% by 2003. The deregulation package of June 1996 eliminated all surcharges on imported goods and reduced tariffs on 1,497 tariff lines, accelerating implementation of commitments. Tariff reduction for the automotive, chemicals and metal industries are regulated separately.	Coverage of NTBs as a percentage of import value has remained at 12%-13% since 1991. In accordance with UR, NTBs are to be removed within a 10-year period. At the signing of the UR Final Act (April 1994), this commitment affected 179 tariff lines (out of a total of 269 tariff lines with NTBs). Of these, 81 applied to agricultural items and 98 to industrial items. The NTBs to be removed corresponded to 6% of imports in 1992. By April 1996, 75 NTBs were eliminated, which amounted to 77% of UR commitments. In June 1996, an additional 9 NTBs, 8 of which belong to commitments, were also eliminated. The tariffication and binding of all agricultural items with a tariff reduction of at least 10% per line item will be carried out over 10 years.	GATS commitments represent the binding of existing levels of market access. Qualifications or limitations include the establishment of a local joint venture or service partner or insurance company or securities broker/dealer; limitations placed on the admission of natural persons into the country; capital investment requirement of a minimum of 25 years to establish a commercial presence in banking. The country placed no limitations on cross-border supply of services, except commercial banking, or on the consumption of such services.
Hong Kong	Binding tariffs at 0% for all import items by the year 2010.	No NTBs for the protection of domestic industries. Relaxation of the quota system for importation of rice in 1997. Relaxation of control over the import of frozen meat and frozen poultry between 1997 and 2000.	Will seek to remove preferential arrangements for the recognition of qualifications of veterinary surgeons, medical lab technicians and occupational therapists by 1997. Will consider devising non-discriminatory and standards-based criteria for admitting foreign lawyers to practice as barristers between 1997 and 2000. Will commit under GATS to open up market after 1998 for all local basic telecommunications services and a range of international basic services. Will review by 1998 the supply of subscription television service.

Japan	Prior to the UR, average tariff rates were 2.2% for industrial products, 1.4% for forestry products, 5.7% for fisheries products and 11.9% for agricultural products. As a result of the UR, average bound rates were reduced to 1.5% for industrial products, 1.0% for forestry products, 4.1% for fisheries products, and 9.3% for agricultural products. UR tariff-reduction commitment was accelerated on 697 items, including textiles, chemicals, steel and non-ferrous metals, by approximately two years on an applied rate basis with tariff rates originally scheduled to be applied in January 1998. The simple average *applied* tariff in 1996 was 9.0% (26.3% for agricultural products, 21.3% for leather, 8.7% for textiles and 0.3% for industrial products) and will be reduced to 7.9% by 2000.	As a result of the UR, quantitative restrictions on all agricultural products were abolished and converted into customs duties, with the exception of some products for which the "special treatment" provision of the Agreement on Agriculture is applied. In 1996, quota restrictions were converted to tariffs for around 30 items of agricultural products. The quota restriction on rice must be converted to tariffs in 2000. There are no import and export levies, no minimum import prices, no discriminatory import licensing and no export subsidies.	Made commitments during UR negotiations to liberalize trade in services in more than 100 areas.
Malaysia	Substantial UR offers covering 5,900 tariff lines. Almost all the offers range between 5% and 30%, with the largest number of tariff lines committed for textile-related products (1,100 tariff lines). All the offered rates are bound. Substantial reduction in agricultural products: the tariff for wheat was reduced from 272% to 13%, grains from 327% to 95% and meat from 272% to 13%. In industrial products, offers were more modest, because they were already quite low.	NTBs will be reviewed and where appropriate relaxed or abolished.	Foreign brokerage firms will be allowed to acquire up to 49% in domestic firms. Foreign equity in domestic funds management firms will be raised to 70%.
New Zealand	In compliance with the tariff reform programme, by the year 2000 tariffs will fall to about 50% of their 1996 levels, with a simple average for all tariffs of approximately 3%. A further review of tariffs is scheduled for 1998. All imports will be duty free by 2010.	There are no NTBs for domestic-production support or border-protection purposes, and no export subsidies.	The possibility of broadening the coverage of service liberalization will be examined in the 1997 IAP.

Philippines	Tariff rates were bound at a 10% ceiling rate above the 1995 applicable rate, involving 2,800 industrial tariff lines (50% of the total lines). Additionally, there is a commitment to bind 744 agricultural tariff lines, increasing the proportion of binding commitment to 63% of the total tariff lines. The bound tariff rates on the 744 agricultural tariff lines, however, must be reduced by 24% in the course of 10 years. Exceptions to this binding commitment involve 66 tariff lines (0.01% of the total), 42 in agriculture and 24 in textiles. Import controls on agricultural products, except rice, will be converted to tariffs by 2005. Under APEC, beyond UR commitments, tariffs will gradually be phased down, targeting a uniform rate of 5% on all products (except sensitive agricultural products) by the year 2004.	At the end of 1994, 250 items were subject to quantitative restrictions under the Philippine Standard Commodity Classification Code (PSCC), which accounted for 4.4% of total PSCC lines. Recent liberalization measures included removing import restrictions on new motor vehicles and a number of used trucks and buses, lifting quantitative restrictions on sensitive agricultural products, except rice, and liberalizing importation and exportation of petroleum products. Beyond UR commitments, remaining import licensing requirements will be eliminated under cover of GATT Article XVII:B (restrictions due to balance-of-payments reasons).	GATS, commitments bind all current market-access restrictions involving four types of services: financial, tourism, transport and telecommunications. Management of multi-modal operations and auxiliary services to shipping will be opened up. Liberalization of finance companies, underwriting of securities and management of mutual funds will be considered between 1997 and 2000.
Republic of Korea	Two Five-Year Reform Programmes beyond the terms of the UR concessions, have achieved a current average applied tariff level of 7.9%. The average applied tariff level for industrial products is 6.2%, which is 2% lower than the UR concession rate of 8.2% (by 2009). Rates for all farm items have been bound, while the level of tariff bindings for industrial products was increased from 10% to 90%. By 1999, tariffs will be completely eliminated for 28 items in accordance with the UR agreement's "zero for zero" initiatives, and tariff rates will be reduced for 193 chemical product items. The duty free concession is expected to increase from 4% to 26% and the concession rate for number of items is expected to be 90% after five years by 2000: 91.8% in manufactures and 42.6% in primary products.	UR commitments abolish quotas on all remaining items, except rice, by 2001, and phase out prohibited subsidies by 1998. Beyond UR commitments, the Import Diversification Program will be eliminated by 1999. Concurrently, voluntary export restraints on 10 items are to be abolished by 1998. Subsides for export promotion, such as the Export Industries Equipment Investment Fund, Export Import Loans, Export Loss Reservation Fund, and Special Depreciation for Foreign Exchange Earning Fixed Assets, are to be replaced by export insurance, long-term export credit, tariff repayment system and trade bill system, which are allowed under the WTO agreement.	GATS commitments cover over 80 sectors; additional offers in the extended negotiations include financial services, basic telecommunications and maritime transport. Remaining limits on foreign investment in distribution (except wholesale meat) will be removed by 2000. Air freight handling services will be liberalized by 1997. Allowed foreign equity ratio in air transport will be 50% by 2000. Limits on foreign investment in ocean-going cargo transport will be lifted by 1999. Cargo reservation system in favour of domestic vessels will be removed by 1998. Petroleum refining industry and legal services will be opened to foreign investment by 1999 and 1997, respectively.

Singapore	100% of tariff lines will be bound at 0% by 2010, with a timetable for reducing the existing bound tariff lines ahead of UR commitments.	Agreement on Subsidies and Countervailing Duty Measures will be implemented by 1 January 2000, three years ahead of schedule.	The monopoly on the basic telecommunication sector will be removed by 2000, seven years ahead of the intended date.
Thailand	With the implementation of tariff reforms commencing 1 January 1995, the number of tariff rates was reduced from 39 to 6. These are 0% for medical equipment and fertilizer; 1% for raw materials, electronic components and vehicles for international transportation; 5% for primary products and capital goods; 10% for intermediate commodities; 20% for finished goods; and 30% for commodities which need special protection.	Existing laws and regulations on import licensing will be revised in conformity with WTO regulations. At present, the three types of import licensing are automatic, non-automatic and special measures. Non-automatic licensing covers the major items, especially agricultural products. Tariff quotas will initially be increased on imported soybean, soybean cake and skimmed powdered milk above its WTO commitments and then gradually increased for other selected commodities.	GATS, commitments include liberalizing such sectors as business services, communications, construction, education, environmental URservices, finance, tourism, recreation services and transport. Up to 25% foreign equity will be allowed for insurance. Beyond 2000, lifting this cap will be considered. The natural gas market and the electricity supply industry will be liberalized.

Source: Asia-Pacific Economic Co-operation (APEC), *Manila Action Plan for APEC (MAPA)*, Tokyo, 1996, supplemented by case studies on China, Indonesia, the Philippines, and Thailand published in APEC, *Economic Policies in APEC*, Tokyo, APEC Study Center and the Institute of Developing Economies (IDE), March 1997; Ippei Yamazawa, "APEC's liberalization and impediments in Japan: Overview of services trade", Working Paper series 96/97, No. 9, Tokyo, APEC Study Center and the Institute of Developing Economies (IDE), March 1997; and a number of documents prepared for the "Study of the Emerging Trading Environment and Developing Asia Conference on Country Studies", Asian Development Bank Headquarters, Manila, August 1997, including Hak K. Pyo, Ki-Hwan, Kim and Inkyo Cheong, Study of the emerging trading environment: Economic implications for Korea, Mohamed Ariff, Mahani Zainai-Abidin and Tan Eu Chye, Study of the emerging global trading environment and developing Asia: The Malaysian perspective; and Sherry Stephenson and Mary Pangestu, Indonesia and the emerging environment.

Note: UR signifies Uruguay Round.

III. INTRA-INDUSTRY TRADE IN ASIA AND LATIN AMERICA

Increasing the economic relations between Asia and Latin America will require alliances and cooperation schemes among companies of both regions. One way to approach the current state of these entrepreneurial relations is through the analysis of intra-industrial trade between both regions.

Fukasaku[23] asserts that the "flying-geese scheme of regional integration[24] is built on the assumption that the trade patterns created by FDI flows tend to develop according to inter-industry specialization. Braga and Bannister[25] argue that trade-oriented FDI will also promote intra-industry trade. This kind of trade is generally associated with the process of economic integration among developed economies, but it also begins to involve developing countries.

In comparing the levels of intra-industry trade between some Asian and Pacific countries in the period 1980-1990, Braga and Bannister point out that intra-industry trade between Japan and the other East Asian countries has increased significantly. This is also true for trade between Indonesia, Malaysia, the Philippines, the Republic of Korea, Singapore, the Chinese Province of Taiwan, Thailand and China. In fact, intra-industry trade has been increasing in respect to all major East Asian trading partners. The growth rate of regional intra-industry trade has been substantially higher in most cases (particularly in Malaysia, Singapore and Thailand) than that of trade with non-regional partners. The authors assert that for most East Asian countries, the overall growth in intra-industry trade can be partially explained by their success in sustaining above-average rates of economic growth, a phenomenon that has placed them on a convergence path with the developed countries.

In Latin America, trade among Mercosur members has changed drastically in the period 1990-1996. Intra-industry trade, however, has been concentrated in the trade flows between Brazil and Argentina. Trade flows between these two countries corresponded to over 70% of total intra-Mercosur trade. Machado and Markwald indicate that intra-industry trade between Brazil and Argentina increased after the inception of Mercosur. In their opinion, over 60% of bilateral trade in manufactures is composed of intra-industry trade, and this type of trade is reasonably consolidated in two sectors: chemical products and machines and transport equipment. The authors suggest that this increase in intra-industry trade is

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[23] Kiichiro Fukasaku, *Economic Regionalization and Intra-industry Trade: Pacific-Asian Perspectives*, Paris, Organization for Economic Cooperation and Development (OECD), 1992, p. 24

[24] This analogy refers to the V-formation of migrating geese. In the case of Asia, a group of economies in different stages of development have organized themselves for a mutually beneficial, purposeful migration towards rapid industrialization. Japan leads, followed by the four Asian newly industrializing economies (ANIES4) and then the new NIEs (ASEAN4) and China. The pattern is purposeful, well-ordered and coordinated. See Terutomo Ozawa, "The dynamics of Pacific Rim industrialization: How Mexico can join the Asian flock of "'flying geese'", in Riordan Roett (ed.), *Mexico's External Relations in the 1990s*, London, Lynne Rienner, 1991, p. 129.

[25] Carlos A. Primo Braga and Geoffrey Bannister, "East Asian investment and trade: Prospects for growing regionalization in the 1990s", *Transnational Corporations*, vol. 3, No. 1, February 1994, p. 115.

not only the result of the integration process initiated by Mercosur, but also the consequence of stabilization programmes in Argentina and Brazil: the regularity of the exchange rates led to the establishment of long-term supplier contracts. In fact, the authors remark that an important part of intra-industry trade flows correspond to intra-firm trade.[26]

Intra-industry trade between Latin America and Asia is still limited. The main intra-industry flows between Asia and the Pacific and Latin America occur mostly in products with little importance for bilateral trade. Only four groups of products conform to the following criteria: the products are manufactured (belonging to SITC 5 to 8 less 67, 68); the average value of trade flows (import or export) was more than US$ 50 million in the period; and the share of intra-industry trade was higher than 65% (see table 24).

A better articulation with East Asia in the field of intra-industry trade would bring three major positive consequences for Latin America: a) it would provide new routes of access to Asian markets; b) it would stimulate the incorporation of new technologies and upgrade workers' skills and entrepreneurs' managerial techniques as a direct consequence of both the production activities and associated public programmes; and c) it would help to generate a process of open regionalism.[27] This articulation also facilitates LAIA access to the complex process of economic interactions and institutions of the Pacific Rim, such as APEC, the Pacific Economic Co-operation Conference (PECC), and the Pacific Basic Economic Council (PBEC).

The absence of strong levels of intra-industry trade illustrates the need to improve trade relations between the two regions. Intra-industry interchanges are frequently associated with patterns of product differentiation that tend to facilitate the decentralization of production and the establishment of local plants specializing in certain products. Latin America could be highly competitive in these areas. Furthermore, small- and medium-sized enterprises could be part of this trade, expanding the opportunities for complementarity between Asia and Latin America.

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[26] João Bosco M. Machado and Ricardo A. Markwald, "Dinâmica Recente do Proceso de Integração do Mercosul", paper presented to the Forum Nacional, Brazil, May 1997.

[27] Carlos Juan Moneta, "Comercio e Integración Intraindustrial en Asia-Pacífico: Perspectivas de Vinculación con América Latina", Working Paper series No. 8, Buenos Aires, National Institute of Foreign Services, May 1995, cited in Hernán B. Gutiérrez, "Asian Conglomerates in Chile and Latin America", mimeo, Institute of International Studies, University of Chile, February 1997.

Table 24

TWENTY MAIN INTRA-INDUSTRY FLOWS BETWEEN ASIA AND LATIN AMERICA
(Based on the average trade flows for the period 1990-1995)

Asia import ranking from LAIA	Commodity	Asian and Pacific exports to LAIA Average 1990-1995	Asian and Pacific imports from LAIA Average 1990-1995	Grubel-Lloyd Index
115	612 Leather etc. manufactures	10,094	10,081	99.9
36	882 Photo, cinema supplies	107,745	106,884	99.6
136	792 Aircraft, etc.	6,386	6,185	98.4
157	714 Engines and motors n.e.s.	3,978	4,159	97.8
87	696 Cutlery	19,981	18,867	97.1
50	514 Nitrogen-Fnctn compounds	57,318	53,582	96.6
108	725 Paper etc. mill machinery	10,476	11,226	96.5
91	592 Starch, inulin,gluten, etc.	18,508	16,830	95.3
190	659 Floor coverings, etc.	1,880	1,529	89.7
143	791 Railway vehicles	6,188	4,973	89.1
125	693 Wire products non electr.	10,166	8,138	88.9
212	524 Radioactive etc. material	390	505	87.1
81	634 Veneers, plywood, etc.	15,827	21,310	85.2
70	516 Other organic chemicals	20,482	29,928	81.3
86	598 Miscel chem products n.e.s.	28,710	18,885	79.4
174	554 Soap, cleansing etc. preps.	3,985	2,521	77.5
62	541 Medicinal, pharm products	54,485	34,240	77.2
30	583 Polymerization etc. prods	74,806	134,114	71.6
220	883 Developed cinema film	66	122	70.4
34	752 Automatic data proc. equip.	208,492	107,996	68.2

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).

IV. LATIN AMERICA AND FOREIGN DIRECT INVESTMENTS FLOWS

A. TRADE AND INVESTMENT

The last two decades in Asia, together with more recent events in Latin America and the Caribbean, suggest that there is a "virtuous circle" between trade and investment. As the WTO indicates, it is not yet possible to argue that FDI *causes* increased exports, but there seems to be a clear correlation between them. They are mutually supportive, and together they play a central role in the ongoing integration of the world economy.[28] In the last 20 years, the growth of FDI has outpaced the increase in the value of world merchandise exports.[29]

As tariffs and non-tariff barriers decrease in the developing world, the tendency toward export-oriented FDI increases, and tariff-jumping FDI decreases. Moreover, quid pro quo FDI tends to diminish in step with the decline of protectionist threats. Tariff-jumping and quid pro quo FDI tend to take the form of stand-alone units geared to the domestic markets. In other words, open markets tend to attract export-oriented FDI.[30]

One way to illustrate the consequences of FDI for trade has to do with the increase in sales by foreign affiliates of transnational corporations (TNCs). These sales are estimated to exceed the value of world trade in goods and services (over US$ 6,100 billion in 1995). Moreover, intra-firm trade among TNCs is estimated to account for about one-third of world trade, and total TNC exports for another third.[31]

Several studies describe the interaction between trade and FDI as a process of relocating production across national boundaries, which creates a two-way or triangular trade flow among participating countries.[32] According to this view, new trade flows originate in changes in relative factor prices that generate new inflows of FDI. Initially, FDI creates a flow of capital goods from the investing country to the host country. Parent companies then provide affiliated companies with parts and

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[28] World Trade Organization (WTO), *Annual Report 1996*, Geneva, 1996, pp. 44-81.

[29] United Nations Conference on Trade and Development (UNCTAD), *World Investment Report*, New York, United Nations, various years.

[30] A case in point is the export-to-sales ratio of Japanese affiliates in the Asian manufacturing sector, which stood at 45% in 1992, while the corresponding ratio for Japanese affiliates in Latin America was just 23%. Ibid., p. 51.

[31] Ibid., p. 73.

[32] See, for instance, UNCTAD, "Rethinking development strategies: Some lessons from East Asian experience", *Trade and Development Report, 1996*, New York and Geneva, United Nations, 1996, pp. 75-105. United Nations publication, Sales No. E.96.II.D.6; Mitsuhiro Kagami, *The Voice of East Asia: Development Implications for Latin America*, Tokyo, Institute of Developing Economies (IDE), 1995.

components for assembly or intermediate goods for further processing. Affiliated companies sometimes send unfinished goods to a third country or back to the home country for final assembly. In some cases, final products are sent back home or to a third country.

Statistics on Japanese imports of machinery and equipment from its neighbours exemplifies this process. In 1990 machinery and equipment corresponded to 21% of total Japanese imports from the ANIES4 countries;[33] by 1995 that share was 43%. Japanese imports of machinery and equipment from ASEAN4 countries[34] was limited to 6% of total imports in 1990; five years later it was 23%. Japanese imports from China follow the same pattern. In 1990 machinery and equipment accounted for only 4% of total Japanese imports from China; by 1995 the share of machinery and equipment in total imports was 14%.[35]

Another aspect of FDI is the dynamic process of relocating production to the countries that offer the best comparative advantages. For example, labour-intensive goods were transferred from Japan (the first-tier country) to ANIES4 countries (the second tier), and later from those countries to the ASEAN4 and other developing Asian countries (the third tier).[36] As a result, 70% of total inflows of FDI to China originated in the ANIES4 countries in 1995. That same year, over 35% of total FDI in Malaysia also came from ANIES4 countries.[37]

The foregoing suggests that FDI tends to look beyond the national level for *regional* comparative advantages. The elements that establish these regional advantages include market size, natural-resource endowment, cost structure of production and pattern of specialization by country, availability of skilled and unskilled labour, R&D capabilities and infrastructure.

The stabilization and liberalization process in Latin America has resulted in an increase in investment-cum-trade from Asia and the Pacific in recent years, which aims to take advantage of the region's natural-resource endowment and amplified regional markets. Once the processes of deregulation, integration and privatization have deepened, new trade and investment flows will certainly increase. These new FDI inflows will differ in nature from previous inflows since they will go beyond the scope and nature of *maquila* to profit from Latin America's newly found regional comparative advantages.

Increased Asian FDI in Latin America will lead to better intra-industry articulation between the two regions, especially between countries that are less asymmetric in terms of development levels and industrial capabilities. This process will be promoted by de facto productive and financial integration, by way of investment or joint ventures. Eventually LAIA countries will have the means to insert themselves more effectively in the markets of Asia and the Pacific, with the possibility of a de facto productive integration, backed up by formal institutional integration. Increased FDI will also promote the incorporation of technology and management skills.

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[33] ANIES4 refers to Hong Kong, the Republic of Korea, Singapore and the Chinese Province of Taiwan.

[34] ASEAN4 refers to Indonesia, Malaysia, the Philippines and Thailand.

[35] Mikio Kuwayama, *El fomento de las relaciones económicas entre Japón y América Latina y el Caribe* (LC/R.1718), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 12 May 1997, table 8, p. 15.

[36] Mitsuhiro Kagami, op. cit., p. 31.

[37] Jiro Okamoto, *Asian Regionalism and Japan*, Tokyo, Institute of Developing Economies (IDE), March 1997, table 4.

If the ongoing integration efforts in both regions are channelled toward open regionalism, the increased FDI and trade will bring the relations between Asia and the Pacific and Latin America to a level in accordance with their relative importance in the world economy.

B. FOREIGN DIRECT INVESTMENT AND LATIN AMERICA

Mexico's difficulties in fulfilling its payment obligations on short-term debt in 1995 briefly endangered the stability of private external capital inflows to Latin America. This unfavourable situation was promptly handled, however. In fact, in 1995 only Mexico was seriously affected by a sharp downturn in private external capital inflows. Nonetheless, taking into consideration the three instruments of foreign investment in the region (FDI, bonds and portfolio equity investments), total capital inflows were down 10% from the previous year. This drop was mostly concentrated in portfolio equity investment. The decline in FDI was 5% (see table 25).

Table 25
NET INFLOW OF FDI IN LAIA COUNTRIES, 1990-1995

(Millions of dollars)

	1990	1991	1992	1993	1994	1995
Argentina	1,836	2,439	4,179	6.305	2,756[a]	3,900[b]
Bolivia	11	96	122	124	130	374
Brazil	989	1,103	2,061	1,292	3,072	4,859
Chile	590	523	699	841	1,722	1,695
Colombia	500	457	790	950	1,438	2,019
Ecuador	126	160	178	469	531	470
Mexico	2,634	4,761	4,393	4,389	10,973	6,965
Paraguay	76	84	137	119	167	207
Peru	41	(7)	145	371	2,326	1,691
Uruguay	Y	Y	Y	101	155	125
Venezuela	451	1,916	629	372	764	574
Total LAIA	7,254	11,532	13,333	15,333	24,034	22,879

Source: ECLAC, *La inversión extranjera directa en América Latina y el Caribe, Informe 1996*, (LC/G.1958-P), Santiago, Chile, 1996, table 3, p. 17. United Nations publication, Sales No. S.97.II.G.7.

[a] Estimated on the basis of FDI inflows in banking, privatizations and capital inflows classified as other capital movements in the balance of payments.

[b] World Bank data.

The United States is the main provider of capital to the region, with the exception of Brazil and Peru, which receive most of their foreign capital inflows from Europe, and Paraguay, which obtains it from within the region. The origin of accumulated FDI until 1995 reveals the strong participation by the United States in capital inflows to some Latin American countries (see table 26). Asian investments are concentrated in Brazil, Mexico, Chile and Venezuela.

The contribution of FDI to Latin American countries is not negligible. In LAIA countries net inflows of FDI as a share of GDP increased from 0.72% in 1990 to 1.56% in 1995. In some countries the figure was over 3% in 1995 (Chile, Peru) or even over 6% (Bolivia). The importance of FDI to Latin American countries can also be assessed through its share of gross fixed investment. The regional average increased from 3.5% in 1990 to 7.3% in 1995, but the increase was much more impressive for certain countries. Peru saw the importance of FDI in gross fixed investment increase from 0.89% in 1990 to 21.4% in 1994, and then drop to 13% in 1995. In the case of Bolivia, the increase was from 2% in 1990 to 15% in 1994 and 35% in 1995. Chile, Ecuador, Mexico and Paraguay also experienced the increase of this share to levels over 10% (15% in the case of Ecuador). Only in Brazil and Colombia was the increase in FDI as a share of gross fixed investment less significant, indicating that domestic investment also increased.

Table 26

LATIN AMERICA: ORIGIN OF ACCUMULATED FDI, BY SUBGROUPS AND COUNTRIES, 1995

(*Percentages*)

	United States	Europe	Latin America and the Caribbean	South East Asia	Other
Argentina	...	...	...	...	...
Bolivia	59.5	9.0	22.1	0.4	5.0
Brazil [a]	36.7	44.0	6.2	7.7	5.4
Chile	40.0	24.7	7.4	3.9	24.1
Colombia	55.7	18.4	21.7	1.9	2.3
Ecuador [b]	66.9	21.6	9.2	0.3	2.0
Mexico	59.5	23.4	0.0	5.1	12.0
Paraguay [c]	9.8	38.9	46.3	0.9	4.1
Peru	14.5	69.0	11.2	0.7	4.6
Uruguay					
Venezuela [d]	53.2	29.1	10.3	3.8	3.6

Source: ECLAC, on the basis of official information.

[a] FDI accumulated through June 1995.

[b] FDI carried out between 1986 and 1995

[c] FDI carried out between 1992 and 1994

[d] FDI accumulated until December 1993.

Note: See ECLAC, *La inversión extranjera directa en América Latina y el Caribe, informe 1996* (LC/G.1958-P), Santiago, Chile, 1996. United Nations publication, Sales No. S.97.II.G.7.

The composition by sector of FDI in the region has changed. Until the early 1990s, a large part of net FDI inflows was directed towards manufacturing. The pattern of industrialization and the economic policies directed at strengthening domestic markets had led transnational companies to establish affiliates in the most important countries of the region, in order to circumvent import restrictions.

Fundamental changes occurred in Latin America in the 1980s. Many countries relaxed restrictions on investments in oil and mining and eased the rules and regulations of these sectors. Furthermore, structural adjustment programmes in countries throughout the region led to the privatization

of services enterprises, and regulations that restricted access to domestic financial markets were loosened.

As a result, the orientation of FDI flows now provides a more balanced sectoral distribution. Moreover, two new factors may tilt the balance towards the services sector. First, as a side effect of the process of trade liberalization, investments in manufacturing have become less attractive. Second, the process of privatizing public services in most LAIA countries is strongly influencing the inflow of investments to the services sector (see table 27).

Table 27

LAIA - COMPOSITION OF ACCUMULATED FDI, BY SECTORS, 1995

(Percentages)

	Agriculture and Mining	Manufacturing	Services and others
Bolivia	67.5	12.9	19.6
Brazil	2.9	59.0	38.1
Chile	59.0	15.3	25.7
Colombia	25.1	38.6	36.3
Ecuador	75.3	15.1	9.6
Mexico	1.5	48.5	50.0
Paraguay	33	47.6	19.4
Peru	19.1	12.6	68.3
Venezuela	2.6	57.8	39.6

Source: ECLAC, on the basis of official information.

The privatization process offers remarkable opportunities for foreign investments. In the period 1993-1995 the share of foreign capital in this process reached an average of 52.6% for all Latin American and Caribbean countries. This share varies greatly among individual countries. In some countries it has been over 60%, whereas in five countries (Jamaica, Nicaragua, Brazil, Mexico and Venezuela) the amount collected was low or very low. The level of participation of foreign capital in the process of privatization depends on several factors, including the degree of openness to foreign investments, the business climate of the country, the underlying policies related to growth and development, market characteristics and the process of modernization.[38] The degree of development of domestic entrepreneurs is also important. In some countries, particularly Argentina, Colombia and Chile, the high growth rates of their economies have strengthened domestic enterprises and helped them establish strategic alliances with foreign investors and transnational corporations.

C. ASIAN AND PACIFIC FDI IN LATIN AMERICA

Investment flows are considered to be the essence of the Asian "flying geese" model. Intraregional investments represent an important part of total FDI in Asia and the Pacific. In 1995, for instance, almost

[38] See ECLAC, *La inversión extranjera directa en América Latina y el Caribe, informe 1996* (LC/G.1958-P), Santiago, Chile, 1996. United Nations publication, Sales No. S.97.II.G.7.

70% of total FDI in China originated in the ANIES4 countries.[39] Flows from outside the region are also significant sources of FDI for most countries.

Although Asia and the Pacific is neither an important player in the Latin American privatization process nor a major source of foreign capital for the region, investments in Latin America seem to be increasing in sectors that may help the development of the manufacturing sector.

One of the characteristics of the current market expansion is the increase in investment in manufacturing industries. Japan is among the leading countries in this type of investment. In fiscal 1995, Japanese foreign direct investment abroad increased 23.5% from the previous year, reaching US$ 50 billion. Of that amount, 35% (US$ 18 billion) was directed to the manufacturing sector. The trend continued in 1996: in the first half of the year, Japanese FDI outflows in manufacturing increased 77.5% over the same period of 1995, while Japanese FDI in non-manufacturing sectors decreased 16.8%.

Table 28

JAPANESE FOREIGN DIRECT INVESTMENT OUTFLOWS, 1989-1995

(Millions of dollars and percentages)

	Total				
Region	**1989**	**1992**	**1993**	**1994**	**1995**
World	67,540	34,138	36,025	41,051	50,694
Asia	8,239	6,425	6,637	9,699	12,264
Latin America	5,238	2,726	3,370	5,231	3,877
Asia % World	12	19	18	24	24
L.A. % World	8	8	9	13	8
	In manufacturing industries				
World	16,284	10,057	11,131	13,783	18,623
Asia	3,220	3,104	3,659	5,181	8,058
Latin America	196	268	364	1,159	320
Asia % World	20	31	33	38	43
L.A. % World	1	3	3	8	2

Source: Japan External Trade Organization (Jetro) and Ministry of Finance, Japan.

Despite the impressive increase of Japanese FDI in manufacturing, Latin America hoids a very limited share of the total. That share was 1.2% in 1989, reached 8.4% in 1994 and decreased to 1.7% in 1995. The value of the outflows was US$ 196 million in 1989, rose to nearly US$ 1.2 billion in 1994 and then decreased to only US$ 320 million in 1995. In fact, Latin America's relative share of total Japanese investments abroad contrasts sharply with its share in Japanese foreign investments in manufacturing.

Similarly, Chinese investments in Latin America tend to be concentrated in the primary sector, for example in iron mining in Peru and Brazil and in copper mining in Chile. Some Chinese investments in Brazil were oriented toward forestry and wood production, while in Argentina they were directed toward the fishing sector. Recently there has been some interest in the drugs and textile sector, as well as

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[39] Jiro Okamoto, *Asian Regionalism and Japan*, Tokyo, Institute of Developing Economies (IDE), March 1997.

in establishing assembly facilities for television sets, radios, fans, motorcycles and tractors.[40] Ten new investment projects in trucks, passenger cars and utility vehicles are about to be established in Brazil, totalling about US$ 541 million.[41]

Korea is another country where overseas investments in manufacturing have increased their share in total FDI outflows. The acceleration of the rate of increase of wages (which was 5.8% over labour productivity as an annual average between 1990 and 1994) caused the share of manufacturing in total overseas investment (based on volume) to increase from 19% in 1985 to almost 57% in 1995.[42] Korea's direct investment in Latin America displays the same trend, particularly since 1995 (see table 29). That year, the rate of increase over the previous year was 214.3%, and it was 57.1% in 1996. The total value reached US$ 242 million in 1996, almost five times the level of 1994. By the end of 1996, Korea had initiated 317 investment projects in Latin America for a total of US$ 689 million, or 5% of total Korean investments abroad. Furthermore, the average value of each project has increased steadily, from US$ 1.4 million in 1992 to more than US$ 6.5 million in 1996.

Table 29
KOREAN INVESTMENTS IN LATIN AMERICA

	1992	1993	1994	1995	1996	Stock (1996)
No. of projects (A)	26	31	33	30	37	317
Amount (B) (US$ million)	36	44	49	154	242	689
B/A (US$ million)	1.38	1.42	1.48	5.13	6.54	2.17

Source: Taik-Hwan Jyoung, "Korean investments in Latin America", paper presented at the Conference on Regional Integration in the Americas and the Pacific Rim, San Diego, 28 February, 1997, p. 17, table 18.

Korean investments in manufacturing in Latin America accounted for 56% of total projects in 1995. Contrary to expectations, Taik-Hwan Jyoung finds that current trends in Korean investments in Latin America are not confined to traditional, labour-intensive manufacturing sectors, but include more technology-intensive industries. These investments further differ with past Korean investments in Latin America in several ways: a) the participation of Korean transnational corporations has been considerable; b) the number of large investments is increasing; and c) the economic impact of these investments will not be negligible to the domestic economies of Latin America, particularly in terms of employment, upgrading the industrial structure and technology transfer.

Two sets of elements seem to have contributed to the increase of Korean investment in Latin America. The first involves the intrinsic needs of Korean firms in terms of factor costs, factor markets and corporate strategy. The second encompasses the improved economic conditions in Latin America, the growth of the Latin American market and the challenges presented by the strengthening of the regional integration schemes.

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[40] Latin American Economic System (SELA), Elementos para las conversaciones institucionales del Grupo de Rio y la República Popular China (SP//DS/DT 5-96), Caracas, October 1996.

[41] Silvia Mugnato, "Brasil conquista 25 montadoras", *Jornal do Brasil*, Rio de Janeiro, 4 June 1997.

[42] Taik-Hwan Jyoung, "Korean investments in Latin America", paper presented at the Conference on Regional Integration in the Americas and the Pacific Rim, San Diego, 28 February 1997, p. 10.

Another source of Asian FDI in Latin America originates in the Chinese Province of Taiwan. Over 84% of the approved cases of Taiwanese FDI in Latin America and the Caribbean occurred in the period 1990-1995. The Chinese Province of Taiwan invested US$ 2.6 billion in Latin American and Caribbean countries in this five-year period. This corresponds to almost 30% of total Taiwanese investments abroad. The regional share of total Taiwanese foreign investments increased. From 25% in 1990 to over 52% in 1994 and then dropped to approximately 40% in 1995. Taiwanese investments in Latin America and the Caribbean tend to be directed towards banking and insurance; the region absorbs 38% of the total outflow of this type of investment from the Chinese Province of Taiwan. The region also captures an important share of Taiwanese investments in transportation.

Latin America appears to be increasing its role in Asian FDI. However, much remains to be done in this area. Asia's participation in the Latin American privatization process still lags behind Europe and the United States. Asia could also be an important partner in the processes of updating Latin American infrastructure and bringing new technologies to the region, through associations and alliances. It is important to involve new players in the area of FDI. The participation of small- and medium-sized enterprises could be particularly fruitful.

CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

1. Trade

Trade between countries of the Latin American Integration Association (LAIA) and Asia and the Pacific increased substantially in the first half of the 1990s. In contrast to the preceding decade, in which reciprocal trade stagnated, trade flows between the two regions, measured as the combined value of exports and imports, doubled from roughly US$ 25 billion to US$ 50 billion in the period 1990-1995. Albeit starting from a small base, trade relations between LAIA countries and Asia and the Pacific are generally dynamic, although many problems remain.

During the period 1990-1995, LAIA imports from Asian and Pacific countries increased at higher rates than Asian and Pacific purchases from LAIA countries. Moreover, LAIA imports from those countries have increased at higher rates than the average growth of their total imports, whereas Asian imports from LAIA countries have increased at rates inferior to the annual average growth of their total imports. Asian and Pacific exports to LAIA countries account for almost 13% of LAIA imports, which is almost double their participation of LAIA imports in 1970. Latin American exports to Asia and the Pacific, however, account for only 2% of Asian and Pacific imports, showing a steady decline from their share of more than 3% of Asia and the Pacific's imports in 1970. This means that Asia and the Pacific has become one of the most important trade partners for Latin America as a whole, while the relative importance of LAIA countries for Asia and the Pacific is small, in both their imports and exports.

Two interrelated problems provide possible explanations for the level and moderate growth of trade flows between the two regions: country composition and product composition. Trade flows between Asia and the Pacific and Latin America are concentrated in a few countries: in Asia, Japan, the Republic of Korea, China and the Chinese Province of Taiwan account for more than 75% of total interregional trade flows. Japan alone accounts for 43% of trade between the two regions. Among LAIA countries, Brazil, Chile and Mexico account for roughly 70% of total interregional trade flows. Nonetheless, import and export markets for both regions have become more diversified, and this process is expected to continue in the future.

With regard to product composition, trade flows are remarkably different according to the direction of trade: imports from Asia and the Pacific are composed of manufactured goods, whereas LAIA exports are mainly primary commodities. The nature of those flows is almost purely *inter-industrial*.

The above overall picture, however, hides important changes that have occurred in individual countries. For instance, the ASEAN countries have been more successful than Japan, New Zealand and

Australia in expanding their exports to LAIA countries. Similarly, such countries as China, the Republic of Korea, Indonesia, the Chinese Province of Taiwan, and Thailand increased their imports from LAIA countries at a much faster rate than Singapore, Australia, the Philippines, New Zealand and Japan. Nonetheless, the relative importance of LAIA countries in the total imports and exports of each Asian and Pacific country is extremely low: in 1995, LAIA participation in total imports was highest in Japan, at only 3.2%, while Korea showed the highest LAIA participation in total exports, at 3.5%.

In Latin America, Peru and the four Mercosur countries absorbed imports from Asia and the Pacific at a rapid rate, in some cases close to 40% per year. With regard to exports, Uruguay, Ecuador, Chile, Peru, Colombia and Argentina were more successful than the others in expanding their exports to Asia and the Pacific. Imports originating from Asia and the Pacific now account for a substantial share of total imports in some countries (e.g., 30% in Paraguay and 18% in Chile), while more than 34% of Chilean total exports and 27% of Peruvian total exports are shipped to Asia and the Pacific.

The product composition of LAIA exports differs substantially according to its trade partners. Manufactures prevail in LAIA exports to the United States as well as in intraregional trade. In fact, more than half of LAIA intraregional trade consists of manufactures. Food products are predominant in LAIA exports to the European Union.

LAIA exports to Asia and the Pacific show a very different product composition. Minerals and metals have a high weight in LAIA exports to Japan, whereas exports to the other Asian and Pacific countries have a relatively high component of semi-manufactures. Due to the increasing relative importance of food products and metals and minerals, the participation of manufactures and fuels in LAIA exports to Asia and the Pacific declined in the first half of the 1990s. In any case, the principal LAIA export items to Asia and the Pacific are primary commodities. The major export items include copper; iron ore; iron and steel; aluminum; crude oil; wood, paper and pulp; soybean and soybean products; coffee; fish and meat; and cotton. LAIA countries are expected to play an increasingly important role as a provision base for Asia and the Pacific in several primary commodities.

While efforts to expand commodity trade will continue, Latin America should emphasize policies to promote the efficient development of goods with higher value added and possibilities for technological transfer. Consideration might also be given to the creation of "industrial clusters" based on natural resources. Asian and Pacific countries that wish to ensure a regular supply of natural resources could participate in the process of cluster building, through direct investment or technical assistance. Detailed studies are needed to identify possible technological complementarities between the two regions in the areas of agriculture and industry, as well as to shed light on transportation and finance bottlenecks. With regard to manufactures exports, LAIA countries need to broaden and innovate the range of products and to study emerging consumption trends in Asia and the Pacific, in order to find suitable ways to penetrate these dynamic markets. Otherwise, the ongoing process of liberalization and deregulation in Asia and the Pacific may favour its Asian neighbours over LAIA countries.

The product composition of Asian and Pacific exports has manufactures as the predominant item regardless of the importing region. The high proportion of manufactures in intra-Asian trade reflects a de facto integration of production promoted by foreign direct investment and other means of corporate cooperation. Exports by Asia and the Pacific to LAIA countries clearly reflect the comparative advantage that these countries have in manufactures worldwide. In particular, these manufactures include transport vehicles and their parts, and electric and electronic products. None of the top 20 export items, which are responsible for 45% of total Asian and Pacific exports to LAIA countries, is a primary commodity. For

these products, the importance of LAIA countries as an export market is still insignificant, though it is increasing. Continued economic stabilization efforts and regional integration processes are expected to enhance the absorption capacity of the LAIA markets for these Asian and Pacific products.

2. Symbiosis between Trade and Foreign Direct Investment

It is increasingly accepted that FDI is not distortionary and does not inhibit trade and growth: the general reduction in average national tariffs has meant that there is less "tarifl jumping" occurring now than did previously. At the same time, the creation of regional trade blocs allows inward investment to enjoy economies of scale in production and marketing that did not previously exist. As suggested by the Asian experience in the last two decades and the more recent events in Latin America and the Caribbean, the interplay of macroeconomics forces (i.e., sound, stable policies) and microeconomics and institutional forces (i.e., savings rates, technology flows, etc.) can create a "virtuous circle" between trade and investment. The economies in both regions have recorded noteworthy improvements on these accounts.

However, the establishment of even playing fields on both sides has not yet led to significant reciprocal FDI expansion: in the 1990s FDI inflows to LAIA countries from Asia and the Pacific have been much smaller than those originating from the United States or the European Union, in terms of both the number of projects and capital invested. Equally, there have been only a few isolated cases of direct investments undertaken by economic agents of Latin America in Asia and the Pacific.

Japan, Hong Kong, the Republic of Korea, the Chinese Province of Taiwan, and Singapore and some ASEAN countries have lost their competitiveness in a series of manufacturing industries, which has allowed for significant growth in intra-industry trade within Asia and the Pacific. This intra-industry chain might be further extended to include the LAIA countries, although it be more difficult for countries outside Asia and the Pacific to find proper niches in the informal, competitive and concentric trade bloc of Asia. In any case, the expansion of Asian intraregional trade and investment implies that a country's comparative advantage is strongly influenced by that of neighbouring countries. What matters more today is the *regional* comparative advantage, determined mainly by the region's market size, natural resource endowment, cost structure of production by country, pattern of specialization by country, availability of skilled and unskilled labour, R&D capabilities, infrastructure, etc.

Though lower in degree than that of Asia, intra-industry trade in LAIA is high and increasing, especially between Brazil and Argentina. As the process of stabilization, liberalization and deregulation keeps its course and integration and privatization efforts deepen, more opportunities will arise for both intraregional and interregional trade. LAIA countries have already seen an increase in investment-cum-trade from Asia and the Pacific in recent years, which aims to take advantage of natural resource endowments and amplified regional markets. These new trade and investment flows differ in nature from those associated with Central America (including Mexico) and the Caribbean, where *maquiladora* activities predominate in such industrial sectors as textiles and apparels or electric and electronics. The subregion's main advantages are geographical proximity to the United States market, subregional integration processes (e.g., NAFTA), regional preferences (e.g., the Caribbean Basin Initiative) and the availability of a relatively inexpensive labour force. The type of Asian FDI attracted recently to LAIA countries goes beyond the scope and nature of *maquila*.

A better intra-industry articulation between the two regions is especially promising between countries that are less asymmetric in terms of development levels and industrial capabilities, promoted by

de facto productive and financial integration by way of investment or joint ventures. This process is expected to have the following effects:

1) provide another means for LAIA countries to insert themselves more effectively in Asian and Pacific markets, some of which are more difficult to penetrate directly (e.g., Japan);

2) promote investment and the incorporation of technology and management skills, which will be facilitated by involving countries which have rapidly closed the "technology gap" with the developed world;

3) facilitate LAIA access to the complex process of economic interactions and institutions of the Pacific Rim (e.g., PECC, PBEC and APEC) with strong participation by the private sector; and

4) support the ongoing integration efforts in both regions, with a focus on open regionalism, through de facto productive integration backed up by formal institutional integration.

3. Market access

Both regions have made commendable progress in reducing barriers to trade through multilateral trade negotiations, regional and bilateral efforts, and unilateral measures. In Asia and the Pacific, average tariffs have declined substantially in recent years, the simple average applied tariff in 1996 was below 15% for 10 of the 12 countries considered, of which eight were below 10% and three below 5%). The LAIA countries have also registered remarkable reductions in tariffs and tariff dispersion in recent years, and their average now falls in the range of roughly 8% to 16%. The majority of the countries in both regions are assuming a "Uruguay Round-plus" focus. These efforts should give impulse to reciprocal trade and investment expansion.

Despite the benefits of liberalized trade, high tariffs involving some industries and numerous non-tariff barriers (NTBs) still exist in both regions, substantially reducing mutual comparative advantages. In Asia and the Pacific, a number of countries frequently resort to NTBs, and some LAIA countries apply more than 200 NTB measures. In fact, although the region's economies have gradually reduced tariffs, non-tariff barriers are still prevalent, including such measure as quotas, import licensing, discriminatory customs procedures and burdensome testing and certification requirements.

The economies in both regions are expected to continue reducing tariffs and NTBs on goods and services unilaterally, bilaterally and/or multilaterally through relevant regional organizations. It is essential that these countries abide by their Uruguay Round commitments and refrain from backsliding, especially through the use of non-tariff barriers to replace reduced or eliminated tariffs. When possible, these commitments should be accelerated, deepened and broadened via regional integration endeavours.

The practice of tariff escalation should be eliminated. Many economies in both regions —developed and developing alike— impose higher tariffs on value-added products while allowing imports of raw materials or unfinished products with low or zero tariffs. This practice protects domestic markets, leading to inefficient allocation of resources. Eliminating tariff escalation will bring competitiveness to currently protected domestic industries and further the regional liberalization effort.

The recent proliferation of trade accords in Latin America and Asia and the Pacific, whether of a bilateral, subregional, regional or hemispheric nature, has brought with it not only realignments of tariff

and non-tariff measures, but also dynamic effects on trade and investment flows, the cost structure of production, competition patterns and the creation and diffusion of technology. These agreements have contributed to a better articulation of transport, telecommunications, energy, water and other infrastructural capacities at the regional level. It is expected that they will also lead to a more homogenous system of trade-related services, investment, intellectual property rights, factor mobility, rules of origin, anti-monopoly laws, anti-dumping and safeguards, sanitary and phytosanitary regulations, etc. These regional efforts enhance the systemic competitiveness of each region, which in turn enables individual countries to insert themselves more efficiently in the world market.

B. RECOMMENDATIONS

Given the differences in the stages of economic development of the countries involved and in their political, legal and administrative systems, and with equal respect for the views of all participants, future deliberations on cooperation between Latin America and Asia and the Pacific should be guided by the following principles:

1) The relationship should be based fundamentally on shared principles and values that can in turn be translated into clear political messages.

2) Asia and the Pacific is a high priority for the LAIA countries and vice versa. The countries of each region should give priority to strengthening their relations with one another, particularly in the areas of trade, investment, social development, science and technology, education, culture and institutional development.

3) Both regions wish to have a strong, deep relationship, but reject an exclusive or dependent relationship with countries or groups of countries. The design of activities should recognize and incorporate the heterogeneity in economic development, culture, and institutional modality existing in both regions, while seeking globally balanced relations.

4) Relation-building should proceed at different levels and speeds. Relationships can be deepened at the biregional, regional, or bilateral levels, taking advantage of the special circumstances of country groupings.

5) Negotiations should aim for open, flexible regionalism. The integration efforts underway in both Asia and the Pacific and Latin America should contribute to and be consistent with the multilateral world trade rules, and they should advance in accordance with the development stages and requirements of the countries concerned.

6) The business sector should have a leading role in the process.

For the private and public sectors on both sides to take advantage of trade and investment opportunities, Asian and Pacific and Latin American countries must be provided with a framework for discussing and harmonizing their common trade and investment interests. Actions to strengthen the trade and investment relations between the two regions might include, among others, the seven elements detailed below.

1. Establishment of regional centres for communication, information-creation and exchange

There is substantial empirical evidence that bilateral trade is negatively related to the physical distance between the countries. The importance of proximity in intensifying economic interdependence, however, is not so much due to transport costs, but to subjective factors such as knowledge of a partner's language, culture, markets and business practices. Such is the case between Latin America and Asia and the Pacific.

While economic actors do exchange information at a micro-level, economies of scale can be achieved by undertaking such exchange at a subregional or regional level. With the aim of reducing the huge gaps in information and perception that currently exist between countries of both regions, the creation of information centres can play a major role in encouraging the private and public sectors to undertake interregional trade, investment and other economic initiatives.

In this light, serious consideration should be given to establishing one or more regional information centres, which could provide the following services:

1) collect and maintain relevant information on the economies, industries, and trade of each country and region;

2) provide information on market access for goods and services in the countries in both regions (see point 3 of this section);

3) facilitate information exchange, contribute to the formulation of economic policies, and promote private and public sector business initiatives;

4) conduct research on economic issues of regional importance; and

5) coordinate the activities of distinct research organizations (at the national, subregional, or university levels), specializing on economic relations between the two regions.

These centres could also serve to bring together interested businesses from various member countries involved in regional economic alliances. The private sector will greatly benefit from easy access to updated, disaggregated information on macro indicators, measures that restrict market access for goods and services (including tariffs and non-tariff barriers) and the conditions, requirements, peculiarities, laws and regulations and economic agents of the different countries involved.[43] To be effective these centres should be coordinated with and take advantage of existing information networks (e.g., WTO, UNCTAD, APEC, ASEAN, LAIA and other national, regional and university based research institutions), with little duplication.

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[43] A step in this direction is the APEC database on customs information and applied tariffs of member countries which was established in 1997. The database is publicly accessible by electronic means (e.g., Internet, CD-ROM).

2. Economic and technical cooperation

Countries in both regions are diverse in terms of the level of economic development, factor endowments, size of the economy, technological capabilities and social and historical backgrounds. This diversity can serve as a source of economic and technical cooperation. Moreover, given the present low level of economic interchange, economic cooperation schemes, at various levels, could provide a starting point for deeper interregional interaction, before discussing formal trade accords or agreements.

Cooperation could incorporate instruments such as trade and investment promotion schemes, training programmes for civil servants and managers, scientific and technical cooperation and energy cooperation. The fundamental objectives are to strengthen the private sector, to modernize the local structure of production and, in this way, to contribute to the economic development of both regions. Countries in the two regions have already carried out wide-ranging economic reforms. This makes it much easier to implement such mechanisms without reducing absolute funding for the more traditional forms of cooperation.

Asia and the Pacific is a heterogeneous group of countries. Among the developed countries, some are industrialized (e.g., Japan), while others are oriented toward natural resources. (e.g., Australia and New Zealand). Among the developing economies, some are in the process of rapidly industrializing, but still rely heavily on natural resource endowments, while others are strongly oriented toward the export of manufactured goods, led either by large corporate entities or small enterprises. Some are already capital-exporting countries whereas others are major recipients of foreign capital, at the global level. Interested LAIA countries should be familiar with the cooperation schemes not only of the developed countries but also of other capital-exporting countries that have recently implemented such schemes (e.g., the Republic of Korea and the Chinese Province of Taiwan).

From the outset APEC and ASEAN have incorporated economic and technical cooperation as an integral part of the trade and investment liberalization effort.[44] Cooperation initiatives between Asia and the Pacific and LAIA countries should emulate this example. APEC, for instance, covers 13 areas of economic and technical cooperation: human resources development; industrial science and technology; small- and medium-sized enterprises; economic infrastructure; energy; transportation; telecommunications and information; tourism; trade and investment data; trade promotion; marine resource conservation; fisheries, and agricultural technology. Though not included as an independent area, environmental protection is mentioned in relation with several areas.

The present trend indicates that trade flows in food and other agricultural products between the two regions will increase in the future. Cooperation programmes in this area can encompass a range of

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[44] The Osaka Action Agenda of APEC, for instance, establishes a new modality of cooperation. It emphasizes the departure from the conventional modality of distinct donor-recipient relationships. Member governments contribute, on a voluntary basis, the resources available to them, such as funds, technology and human skills. APEC member economies jointly implemented at least 320 joint economic and technical cooperation activities in the period 1992-1996. These activities were mainly in human resources development, energy, telecommunications, small- and medium-sized enterprises, trade promotion and tourism. However, they have not advanced beyond the level of studies and seminars and have yet to be implemented as concrete programmes. Japan's proposal of Partners for Progress (PFP) aims to break through this hesitation. PFP suggests a cautious start with technical cooperation in training customs officials, transferring technology in quarantine and testing, and improving administrative capability. These are indispensable for successful implementation of liberalization and facilitation and are easily agreed upon.

activities, including the following: i) food security and handling to facilitate and expand trade in unprocessed and processed agricultural and fishery products and to ensure safe and sustainable methods of production; ii) training and extension to harmonize phytosanitary certification and quality assurance, with an aim of improving marketability; and iii) prevention of environmental degradation.

3. Transparency in market access and business facilitation

In recent years, the availability of regional information on market access for goods and services has been greatly improved, thanks to efforts on the part of national, international and regional organizations, such as ministries, the WTO, UNCTAD, IMF, the World Bank, OAS, regional financial institutions and Secretariats of regional integration. Even with these improvements, however, the available information is often insufficient.

Both regions are establishing an increasing number of integration and trade agreements. These integration schemes should help to cut down on factors that make transactions more difficult or costly, by building infrastructure to link the countries on both sides of the Pacific Rim, eliminating or harmonizing rules and regulations and implementing institutional reforms that make it easier for incomplete or fragmented markets to become integrated. However, concessions made in one agreement can sometimes overlap and perforate the commitments made in another. To understand market access more clearly, therefore, the enormous insufficiency in the provision of detailed up-dated information must be addressed, particularly with regard to the following areas:

1) tariff levels and structure (including tariff escalation) and non-tariff barriers (including import-licensing procedures);

2) Trade-Related Investment Measures (TRIMs), anti-dumping, subsidies and countervailing measures;

3) technical norms and standards, anti-dumping, safeguards, rules of origin,[45] intellectual property rights, investment regulations, sanitary and phytosanitary regulations, etc.;

4) other liberalization and deregulation measures (e.g., privatization);

5) subregional, regional and hemispheric integration processes; and

6) convergence and divergence between regional integration and multilateral trade regimes (i.e., WTO);

Greater availability of information on these aspects of market access will enhance transparency, thereby facilitating timely decisions on trade and investment opportunities. The regional information centres proposed in point 1 of this section could assume the responsibility of coordinating the

[45] The possibility of wide-ranging intraregional liberalization of trade and investment should not obscure the danger that rules of origin could become a hidden instrument of protection, discriminating more against countries which are less able to take advantage of the expanded market's potential or against those with a greater proportion of extraregional investment. While these rules may be necessary, especially in the absence of common tariffs, considerations of competitiveness and equity imply that their requirements should be limited.

information made available by a variety of sources and of defusing it to interested parties in a systematic manner.

The broad heading of "business facilitation" encompasses a spectrum of activities that are complementary to the traditional policy issues involved in trade and investment liberalization. Biregional efforts should focus on the following two areas: a) customs rules and procedures and b) technical standards and related testing and certification.

a) Customs rules and procedures

Businesses face numerous difficulties in customs rules and procedures, including non-transparent and inefficient customs infrastructures; differing customs and tariff systems; and improper application of rules of origin, customs valuation, pre-shipment inspection and import licensing. Customs problems can be especially difficult for small- and medium-sized industries that have less experience and fewer resources with which to address these problems. In addition to more global efforts (e.g., modernizing customs procedures and infrastructure, including implementing electronic documentation and processing and simplifying customs documentation), some actions that might be contemplated by the two regions include the following:

1) developing a biregional electronic tariff database (which is currently carried out by APEC);

2) simplifying and, when appropriate, harmonizing customs procedures;

3) establishing a regional carnet system to facilitate promotional activities, such as participation in trade shows and fairs through the use of a simple customs document and accelerated customs clearance for commercial samples;

4) harmonizing rules of origin, including participating actively in the WTO work programme; and

5) establishing programmes by which more experienced economies can provide training and assistance to economies that require such assistance.

b) Standards

Standards differ considerably among the countries, imposing additional costs on producers and traders. Even where standards are similar, products often need to be tested and certified separately in each market. Some countries have used standards and related requirements as disguised protectionist devices. All these costs increase prices to customers and impede market access.

Activities in this sphere might call for measures to harmonize standards between the two regions and to create mutual acceptance arrangements in the areas of testing, calibration and certification. The participation of the private sector as well as regulatory bodies in both regions will be essential.

4. Transport

Geographical distance, in general, and the lack of direct transport and irregularity of services offered across the Pacific, in particular, have rendered trade exchanges between the two regions difficult, negatively affecting the competitiveness of export products. Therefore, it is useful to study the system of cargo and passenger transportation, identify areas of bottlenecks, if any, and elaborate proposals for improving transport and promoting cooperation agreements.

It is also desirable to assess the results of earlier pre-feasibility studies in the area of transport infrastructure, which examined the possibilities for improving interconnections in railway, river and inland transports, as well as ports and storage facilities, with the purpose of promoting biregional trade. Countries in both regions can work together to undertake further feasibility studies and obtain necessary finance for the implementation of infrastructure projects.

To identify deficiencies and bottlenecks, it is important to closely review mandates entrusted upon the Ministry of Transport and other competent organizations in the field, to ensure consistency and harmony with those given to the Ministry of the Economy and Foreign Trade.

Priorities for cooperation and action in transport include the following:

1) pursuing policies that significantly improve the biregional transportation system through strategic investment in infrastructure, to meet the growing and diverse transportation needs of Asia and the Pacific and Latin America;

2) working together to promote development and mobilization of capital to finance transportation infrastructure projects, recognizing the need for both public and private sources; and

3) encouraging efforts by international institutions to provide and enhance funding for transportation infrastructure.

5. Creation of a forum for permanent or periodic consultation on issues related to trade and investment

Though there is an increasing number of forums to deal with economic issues at bilateral or subregional levels, there is still no formal biregional institutional mechanism through which regional interests are discussed and analysed. The existing subregional or regional integration schemes, such as NAFTA, Mercosur, Andean Community and G3 on the Latin American side, or ASEAN and APEC, on the Asian side, have a limited country coverage. Mexico and Chile are the only Latin American members of APEC, and Colombia, Chile, Mexico and Peru are the only Latin American members of either the Pacific Basin Economic Council (PBEC), whose members are business-oriented, or the Pacific Economic Co-operation Conference (PECC), which has a tripartite membership of government officials, the business community and academics. The simple amplification of these three organizations to incorporate more Latin American countries as members would not necessarily lead to a biregional forum between Asia and the Pacific and Latin America in which interests common to both regions can be discussed. The two regions need to create a forum of cooperation dialogue that goes beyond the concept of the Pacific Rim.

The objectives of a cooperation dialogue between the two regions are two fold. One is to generate favourable conditions for increasing and deepening biregional relations, in economic and social cooperation (e.g., trade in goods and services, investment promotion, technology transfer), and exchanges of views and opinions on development and trade strategies, education, human capital formation, employment creation and social development. The second objective is to define, jointly and gradually, a permanent work programme, that would include concrete, viable projects and actions and establish formal mechanisms for dialogue and consultation with the two regions.

Ideally, a permanent mechanism would be established to discuss a wide range of economic and social issues that are of mutual interests. This new forum could entail ministerial meetings either biannually or more frequently if the countries so desire. As preparation for these meetings, a permanent mechanism should be established to allow technical officials to meet periodically to exchange views and opinions on a wide range of topics and issues. The list of mutual interests might include development and trade strategies (including fiscal, monetary and exchange rate policies), trade and investment opportunities, and the enhancement of the private-sector relationship between both regions.

For the deliberations at these meetings to lead eventually to concrete actions and programmes, a formal mechanism must be designed to enhance information and communication flows between the interested parties in both regions. For this reason, it is important to consider the creation of the information centres proposed above. Finally, these events should include representatives from government, business and academia. When deemed appropriate, the participation of international or regional financial organizations, WTO and pertinent United Nations organizations will be sought.

6. Formation and reinforcement of biregional chambers of commerce

Numerous binational chambers of commerce or other business groupings have been established between an Asian or Pacific country and a LAIA counterpart. These vary widely in scope, sectoral coverage and intensity of activities, and there is little interaction among them.

In the case of ASEAN, the ASEAN Chambers of Commerce and Industry (ASEAN-CCI) is the main channel of communication between ASEAN and the private sector. The Executive Committee[46] and six Working Committees, which are invited to all Meetings of Senior Officials of ASEAN, are equipped to promote private sector participation in various forums. Closer biregional schemes of this nature, encompassing the national and regional chambers of commerce on both sides, can be instrumental in strengthening private-sector ties among Asian and Pacific and LAIA countries.

The recent initiative by the European Association of Chambers of Commerce and Industry (Eurochambers) to hold the First Congress of Bilateral Chambers of Commerce in Latin America provides an interesting example of broadening interconnections of these business entities. Eurochambers represents 14 million companies in all sectors and of all sizes through their 32 National Association of Chambers of Commerce and Industry. Similarly, the Bilateral Chambers of Commerce of the European Union in Latin America —more than 100 in number— are the natural extension of the European Chambers of Commerce and constitute the largest multinational network in the region. Their information,

[46] The Executive Committee comprises 10 members, including the Chairperson, Deputy Chairperson, one permanent nominee from each national chapter and the Secretary-General of ASEAN-CCI.

assistance and consultancy that they provide is the main support for European companies in Latin America.

7. Enhancement of small- and medium-sized enterprises

In both Asia and the Pacific and Latin America, internationalization has already become an essential issue for many small- and medium-sized enterprises (SMEs), and projects for technical cooperation and investment involving them are on the rise. Countries in both regions are growing more interested in the promotion of these entities. In the past, many of the countries in the regions pursued a course of industrial development through the attraction of large foreign enterprises. Recently, however, there is an increasing awareness that healthy economic development urgently requires fostering industries that support large corporate production activities. Programmes in this area can include human resources development, information access, technology and technology sharing, financing and joint-ventures.

Cooperation in this area could be modelled on the Promotion of the European Community Investment Partners (ECIP), which is designed to help Asian, Mediterranean and Latin American companies and their European counterparts set up joint ventures. The programme tends to favour those developing countries that have shown commitment to attracting FDI and that actively encourage projects involving SMEs. It basically operates through four so-called facilities: i) identification of projects and partners; ii) investment feasibility studies; iii) financing of capital requirements; and iv) development of human resources.[47] A similar type of cooperation scheme could be envisaged between LAIA countries and Asia and the Pacific could address the needs of SMES while also promoting economic and technical cooperation (point 2 above).

[47] Between 1988 and 1994, ECIP approved a total of 442 projects for a total amount of ECU 50 million.

Annex-1

COUNTRY-CODES FOR TABLES 12 AND 20

ARE	United Arab Emirates	GTM	Guatemala	PRY	Paraguay
ARG	Argentina	HKG	Hong Kong	RUS	Russian Federation
AUS	Australia	IDN	Indonesia	SAU	Saudi Arabia
		IND	India		
BOL	Bolivia	IRN	Iran	SGP	Singapore
BRA	Brazil			SWE	Sweden
CAN	Canada	ITA	Italy	THA	Thailand
CHL	Chile	JPN	Japan	TUR	Turkey
CHN	China	KOR	Korea, Republic of	TWN	Chinese Province of Taiwan
COL	Colombia	MEX	Mexico	UKR	Ukraine
		MYS	Malaysia	URY	Uruguay
DNK	Denmark	OMN	Oman	USA	United States of America
ECU	Ecuador	PAN	Panama	UZB	Uzbekistan
ESP	Spain	PER	Peru	VNM	Vietnam
FRA	France, Monaco	PHL	Philippines	VRN	Venezuela
GER	Germany	PNG	Papua New Guinea	ZAF	South Africa
		POL	Poland	ZMB	Zambia

Source: The International Commodity Trade Data Base (Comtrade) of the United Nations Statistical Division (UNSTAT).